Annual Report

BNG Bank **2018**

BANK

Contents

Selected financial data

(Amounts in millions of euros)

	2018	2017	2016	2015	2014
Balance sheet total	137,509	140,025	154,000	149,511	153,505
Loans and advances	85,034	86,008	87,576	89,366	90,732
– of which granted to or guaranteed by public authorities	77,738	77,727	79,304	80,159	81,036
Shareholders' equity[1]	4,257	4,220	3,753	3,739	3,582
Hybrid capital	733	733	733	424	–
Equity per share (in euros)[1]	76.45	75.79	67.39	67.14	64.32
Leverage ratio	3.8%	3.5%	3.0%	2.6%	2.0%
Common Equity Tier 1 ratio	32%	30%	26%	23%	24%
Tier 1 ratio	38%	37%	32%	27%	24%
Net profit	337	393	369	226	126
Net profit available to shareholders	318	375	365	226	126
Profit available to shareholders per share (in euros)	5.70	6.73	6.62	4.06	2.26
Proposed dividend	159	141	91	57	32
Dividend as a percentage of the consolidated net profit available to shareholders	50%	37.5%	25%	25%	25%
Dividend per share (in euros)	2.85	2.53	1.64	1.02	0.57
Social					
Number of staff (in FTEs) at year-end	302	303	292[2]	285	278
Sickness absence	3.3%	3.0%[3]	3.4%	2.9%	2.4%
Funding raised by means of SRI bonds	1,190	1,383	1,560	650	500
Environment					
CO_2 emissions (total, in tonnes)[4]	453	515	540	511	480
Per FTE (in tonnes)	1.5	1.7	1.9	1.8	1.7

1 Equity excluding hybrid capital.

2 Starting in 2016, the FTE of positions for which a 40-hour working week has been agreed is determined on the basis of a 36-hour working week, resulting in > 1.1 FTE. The number of FTEs consequently increases by more than 7.

3 The methodology used to measure sickness absence was changed in 2017. The figures for 2017 onwards are not directly comparable with those of previous years. Please see the appendix containing the Reporting principles and data-measuring technique for the details.

4 The conversion factors for the calculation of CO_2 emissions have changed. The emissions for 2016 have been recalculated on the same basis. The figures for 2016 to 2018 inclusive are not directly comparable with those of previous years. Please see the appendix containing the Reporting principles and data-measuring technique for the details.

Balance sheet total € 138 billion

BNG BANK

New long-term lending € 11.6 billion

€ +2.1 billion

Local authorities € 4.4 billion

Housing associations € 5.5 billion

Healthcare institutions € 0.9 billion

Educational institutions € 60 million

Energy and infrastructure € 0.8 billion

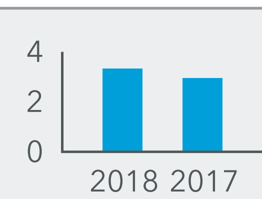
4th bank of the Netherlands

Borssele Wind Farm Site III/IV

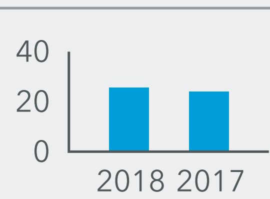
825,000 households with sustainable electricity

Completion: **2021**

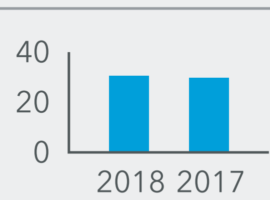
Net profit € 337 million



Leverage ratio 3.8%



Common equity Tier 1 ratio 32%



Tier 1 ratio 38%

Dividend € 159 million

Funding € 18.4 billion

of which **SRI bonds € 1.19 billion**

Contributing to new financing solutions

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2018 was Gita Salden's first year as Chair of BNG Bank's Executive Board. 'A challenging year with many changes for me', she says in an interview where she reflects on past events and looks ahead.

You were already familiar with BNG Bank from your time as Deputy Treasurer-General at the Ministry of Finance. Did the impression that you formed as an outsider match your experiences as an insider?

I knew that BNG Bank funds money on a large scale and on favourable terms, which it uses to provide attractive loans to local authorities as well as public sector organisations. While it is true that we excel in this aspect, we also do much more. We pool knowledge, share our expertise, contribute ideas to financing solutions and really do make life easier for our clients. It came as a pleasant surprise to me when I found that the range of services provided is far broader.

What do you think is BNG Bank's key attribute?

With a balance sheet of nearly EUR 138 billion, BNG Bank is the fourth-largest bank in the Netherlands. Our bank has a substantial impact on society and helps to ensure that costs remain low for municipalities, housing associations, and healthcare and educational institutions, for example. This social contribution is reflected in our mission, the wording of which has been amplified as follows: we are a committed partner for a more sustainable Netherlands and enable the public sector to achieve social objectives. Clients make long-term commitments to BNG Bank. We provide loans to them, project financing, as well as payment services. Even when things are going not well and funding is scarce, we provide financing with a wide range of maturities as well as attractive terms and conditions. After all, it is the price that matters, particularly to the public sector. We are always on the lookout for new responsible financing solutions that will really benefit our clients.

BNG Bank has long-lasting relationships with its clients. How do you continue to build on those relationships?

I think that it is important for us to serve our existing clients well and seize new opportunities. Although local authorities are an important and faithful client group, we cannot take it for granted that they will turn to us for new loans. We have some competition, which is a good thing. It means that we have to remain focused on

Our **faithful clients deserve** continual **innovation** to safeguard our **social impact**, including in the **future**.

quality, price and expertise. We live in a fast-moving world and our faithful clients deserve continual innovation to safeguard our social impact, including in the future.

Can you explain what this fact means for specific client groups?
Municipalities had municipal council elections to deal with in 2018. New boards were formed and the coalition agreements contain substantial ambitions with corresponding financing issues. We invited board members to inspirational events at which we presented ourselves as the bank which can be relied on to provide low-cost loans and one which can make life easier for its clients on the basis of its knowledge and expertise; for example, by helping with making public real estate and social housing more sustainable. Among other things, we are promoting sustainability with the aid of the Public Real Estate Scan, an online tool which we use in order to give our clients an immediate idea of the measures necessary to improve the sustainability of real estate and the costs involved.

Our attractive terms and conditions make us the most important financier for housing associations. They are faced with a huge task in their efforts to make their housing stock more sustainable and at the same time keep rent affordable. I am impressed by the way that they are tackling this matter and we are happy as a bank to contribute ideas that might help them. BNG Bank occupies a strong market position in the provision of financing for healthcare real estate. We come across new housing concepts in this sector and can see substantial sustainability challenges there as well. With various partners, we are working to provide the sector with support in this area.

We are also investing in our relations in the areas of infrastructure and energy, sectors that are facing major challenges. For instance, the central government and the major cities are planning several large public transport projects in the Randstad. We will be able to assist with the financing, as we have for years now. One example is the 'Groene Boog' project, a section of the A16 motorway in Rotterdam, which we financed last year through a public-private partnership. We also financed other infrastructure, such as high-speed Internet for parts of the province of Friesland and district heating grids in Westland. On top of it huge investments are needed for the energy transition.

The energy transition is one of the current social requirements. What additional contribution is BNG Bank making in this regard?
Following the climate platform for the built environment to prepare for the Climate Agreement, BNG Bank has together with the Association of Netherlands Municipalities (Vereniging van Nederlandse Gemeenten), contributed ideas for new financing solutions to ensure that this huge challenge can be met. The strength of BNG Bank lies in its readiness to make knowledge about lending in such areas accessible. Knowledge of the latest technologies is essential as well, which is why BNG Bank supports the chair in geothermal energy – also known as terrestrial heat – at Delft University of Technology, for example. BNG Bank has already financed various geothermal energy projects, alongside the financing provided for other forms of renewable energy such as wind farms, solar panels, bioenergy and the use of residual heat.

The **strength** of BNG Bank lies in its readiness to make **knowledge** about **funding** of the **energy transition accessible**.

Financing sustainability is clearly an important aspect. Were any milestones reached in this area over 2018?
Launching the BNG Sustainability Fund means that we are able to meet the growing demand for credit from business initiators for local sustainable projects. The first loans have already been granted, including one for the installation of electric vehicle charging points. As the Fund is a long way from empty. I hope that many more innovative sustainability projects will make use of it in the year ahead. The sustainable bonds introduced by BNG Bank in 2014 have also proved successful. In November 2018, we passed the EUR 5 billion mark in bonds placed with international investors, enabling us to finance the loans granted to the most sustainable municipalities and housing associations. In addition, we realised EUR 282 million in sustainable project financing over 2018.

How does BNG Bank create the attractive terms and conditions that are so important to the public sector?
Our excellent risk profile and high creditworthiness mean that we have a strong funding position on the international money and capital markets.

What were the financial results in 2018 like?
In 2018, the volume of new long-term lending was EUR 11.6 billion, a substantial increase compared with the EUR 9.5 billion provided in 2017. These figures are an indication of an increase in the investment level of our clients, partly due to the sustainable investments being made. BNG Bank's equity position has improved. Our Tier 1 ratio, a measure of our risk-weighted capital position, rose to 38% and that is one of the reasons why we are internationally regarded as one of the world's safest banks. We aim to achieve a reasonable return for our shareholders rather than maximise its profit.

What other developments were important to the bank?
Our organisation needs to be flexible if we are to take advantage of developments, which requires us to focus on competencies among our employees. We arranged for a culture assessment to be carried out and set up an in-house culture programme in 2018. The culture assessment showed that while employees are professional and committed, they identify further opportunities for improvement in the ability to take decisions and innovation, in part due to technological developments.

Our Data Insight project focusing on making the provision of information more professional, is another important development. It is intended to result in transparency, speed and convenience for clients as well as our regulators. A new bank app was introduced in 2018, to be followed in 2019 by the new client portal 'My BNG Bank', which will enable us to serve our clients at an advanced and efficient level. None of these things will be possible unless we ensure that data are readily accessible in digital form, of course taking privacy aspects into account. We have made substantial investments in this area over the past year.

When you look back on your first year as Chair of the Board, what was the best moment for you?

This year, we made even greater efforts to ensure that we continue to achieve our present social impact in the future as well. We do so on many fronts and in cooperation with many partners. The BNG Bank Sustainability Day held in the temporary Climate Planet Globe in Utrecht, where our clients were treated to a spectacular view of our planet from space via live-streamed images from NASA satellites, was a special day. It gave us an opportunity to inspire our clients with knowledge about new developments in the area of sustainability and show the difference that BNG Bank can make in this area.

Profile

2.1 Our mission

2.1.1 Mission

BNG Bank reworded its mission in the reporting year, though it remains unchanged in terms of substance. BNG Bank is a committed partner for a more sustainable Netherlands. We enable the public sector to achieve social objectives.

2.1.2 Core values

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

Sustainable is interpreted by us as simultaneously serving the interests of people, planet and profit. This notion is inextricably linked to our mission. To implement it, we encourage our clients to take initiatives aimed at creating a more sustainable society. We also organise our own operations to guarantee low environmental impact and good employment practices.

Reliable means in the light of our public role that BNG Bank is a safe bank visible to and distinctive for stakeholders. Most of our lending is guaranteed by the Dutch central government or local public authorities

Professional means that we continuously develop our services, our employees and information provision further. This value is translated into our operations and human resource policy.

BNG Bank is a **committed partner** for a **more sustainable Netherlands**. We enable the **public sector** to achieve **social objectives**.

2.2 Strategy

BNG Bank’s strategy is as follows:
- We provide financing for all maturities while keeping prices to a minimum.
- By providing financial solutions, payment services and expertise, we enable our clients to achieve their social objectives.
- We build lasting relationships with our stakeholders and respond proactively to their requirements.
- Our services are always available, irrespective of the situation on the financial markets.

2.2.1 Strategic objectives

Relevant player
BNG Bank seeks to be a relevant player in the lending of Dutch local authorities as well as in the housing, healthcare, education, energy and infrastructure sectors. As far as long-term lending is concerned, we aim to meet more than half of the long-term credit demand from those client groups and to do so in a viable manner. We do so by providing financing at the lowest possible rates, often with extended maturities. Market share is an indicator of our level of success.

Reasonable return
BNG Bank aims to achieve a reasonable return rather than maximise its profit. Through dividends, this return accrues to the shareholders (solely public authorities) and by extension to society.

2.2.2 Conditions
The combination of the lowest possible lending rates and a reasonable return for shareholders is feasible because two conditions are met:

An excellent risk profile
BNG Bank pursues a strict capitalisation policy in order to safeguard its excellent profile. The leverage ratio must have a certain margin over and above the minimum requirement. The internal lower limit (24%) for the Tier 1 ratio, which represents the ratio between equity and risk-weighted outstanding credit, well exceeds the required value.

Goal-oriented and efficient organisation
Having a goal-oriented and efficient organisation is the second important condition. Sound risk management, operational excellence, outstanding data quality and integrity in our operations are part of this condition. An important foundation for this is our employees.

2.3 Services

BNG Bank offers a wide range of products and services: short-term and long-term loans, payment services and current accounts. Core customers of the bank are local authorities, housing associations and healthcare institutions. In addition, we finance educational institutions and energy and infrastructure projects. The majority of the loan portfolio (more than 91%) is not subject to solvency requirements and consists of loans guaranteed by government bodies with a risk weighting of 0%. None of the products and services that BNG Bank provides are the subject of questions raised by stakeholders or public debate.

We help our clients in achieving their objectives for a future-proof society. For instance, we help clients to realise the ambitions set out in the Energy Agreement by financing the generation of sustainable energy and provide them with a tool that they can use to determine the possibilities for making real estate more sustainable.

BNG Bank is one of the largest issuers in the Netherlands. We have a very strong funding position thanks to the shareholding of Dutch municipal and provincial authorities, largely risk-free lending as well as very high external credit ratings (Moody's: Aaa, Standard & Poor's: AAA, and Fitch: AA+).

We raise short-term and long-term funding in various currencies, mainly through the international money and capital markets. In 2018, BNG Bank issued EUR 18.4 billion in bonds with an average maturity of 7.2 years. The Funding section contains more detailed explanation.

We **help** our **clients achieve** their **objectives** for a **future-proof society**.

2.4 Value creation and materiality

BNG Bank creates value for its primary stakeholders: clients, investors, shareholders and employees. The value creation model shows how BNG Bank uses the available resources to create value, the results achieved, their impact on stakeholders and society as a whole, and the Sustainable Development Goals to which a contribution has been made. By means of the materiality analysis, input from stakeholders determined which subjects are of sufficient importance to report on in the annual report. This is further explained in the section 'Explanation of materiality analysis and material subjects'.

Value creation model

Input

Social
Transparent products at the lowest possible prices and sound business operations

Financial
Equity and loan capital

Environment
Promoting sustainability among clients

Employees
Well-trained and committed employees

External factors

BNG Bank
- Mission
- Strategy
- Objectives
- Parameters

Stakeholders

Output

Social
Relevant player in financing core clients, product innovation and full compliance

Financial
Reasonable return on equity and prudent capital position

Environment
Revenue from sustainable projects Solutions to financing issues regarding the energy transition

Employees
High employee engagement and investment in knowledge

Outcome

Social services are provided at low prices

We encourage our customers to conduct their business in a sustainable manner

We contribute to the reduction of CO_2 emissions in our country and thus to climate objectives.

Through knowledge and expertise, employees contribute to a professional organisation

Impact

Reduction CO_2

Gooise Meren Municipal Council: “the Public Real Estate Scan makes a huge difference”

‘Climate-neutral by 2030.’ To enable the achievement of this lofty ambition, Gooise Meren Municipal Council plans to make all municipal real estate sustainable as quickly as possible. The council has used BNG Bank’s Public Real Estate Scan to select the first five buildings that will be put out to tender under an energy sustainability contract.

“It is an excellent tool for sustainability initiatives such as this one”, says councillor Jan Franx of the real estate scan. As there are five different types of buildings involved, the results of the pilot will be useful to increasing the sustainability of the remaining council properties. “The real estate scan gives us insights into the options for each of these buildings in terms of energy saving, the cost of sustainability measures and the resulting reduction in CO_2 emissions.” Based on the scan, a reduction of more than a thousand tonnes of CO_2 a year can be achieved for the five buildings.

Energy Service Company (ESCo)

Gooise Meren has selected an Energy Service Company (ESCo) for the tender, because the council wants to retain control over the planned sustainability initiative on the one hand but outsource implementation and management to the market on the other. “That way, the council can benefit more from the knowledge and expertise of market players throughout the term of the contract”, says Franx.

What we have **achieved** in 2018

3.1 Financial results

BNG Bank has had a successful year. The volume of newly issued long-term loans rose by EUR 2.1 billion to EUR 11.6 billion compared with 2017. We use new financing solutions and sustainable initiatives to help our clients meet social challenges. The substantial increase in lending was driven by increasing investments from local authorities and housing associations in particular, including for the purposes of residential construction and sustainability measures for existing real estate. Lending for energy and infrastructure rose as well. To meet the increasing demand for credit, BNG Bank raised the sum of EUR 18.4 billion in long-term lending (2017: EUR 17.7 billion). Among other things, the bank issued benchmark loans in euros and US dollars, ranging in size from 500 million to 2.5 billion. In addition, sustainable bonds were placed with international investors to finance loans for the benefit of municipalities, housing associations and renewable energy. We have issued sustainable bonds worth EUR 5.3 billion in total since 2014.

BNG Bank posted a net profit of EUR 337 million for the 2018 reporting year, a decline of EUR 56 million compared with 2017. Nevertheless, we are pleased with the result. The decrease was mainly attributable to a lower contribution from the result on financial transactions. The return on equity of 8.5% is significantly higher than the target of 4.1%.

The interest result is EUR 434 million, virtually the same as the result for 2017. The favourable rates for new long-term loans raised having had a positive impact on the result. The relatively large volume of early repayments on long-term loans meant that the contribution of results on sales to the interest result in 2018 was unexpectedly large at EUR 9 million. Also, the short-term lending contributed to the interest result.

The result on financial transactions was EUR 112 million positive in 2018 (2017: EUR 181 million positive). The positive result on financial transactions was partly due to the low interest rates and spreads resulting from the ECB's monetary policy. Unrealised changes in market value of financial instruments recognised at fair value and stated in the income statement represent the greater part of this result (68%). Realised changes in market value (EUR 36 million), largely due to changes in the liquidity portfolio, make up the remaining 32%.

Consolidated operating expenses in 2018 rose to EUR 76 million, up EUR 4 million relative to 2017, in part owing to the investments in information technology required to make processes more efficient.

We are **pleased** with the result: a **net profit** of **EUR 337 million**.

BNG Bank's contribution to the European Resolution Fund in 2018 amounted to EUR 12 million, an increase of nearly EUR 3 million compared with the one made in 2017. The contribution is higher than expected because the annual contribution from banks was raised. The decrease in the balance sheet total in 2017 meant that the bank levy paid amounted to over EUR 31 million, down EUR 5 million relative to 2017.

The new accounting standard IFRS 9 for financial instruments became effective on 1 January 2018. The impact on equity was EUR 266 million negative. That result 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. The impact on the other reserves amounted to EUR 44 million negative, of which EUR 33 million was attributable due to the provision for doubtful debts. For more details on the transition to IFRS 9, reference is made to the 'Consolidated Financial Statements'.

The balance sheet total declined in 2018 by EUR 2.5 billion to EUR 137.5 billion. The item Loans and advances decreased by EUR 1.0 billion to EUR 85.0 billion, mainly due to the reclassification as part of the transition to IFRS 9 of EUR 1.4 billion in interest-bearing securities of clients to the item Interest-Bearing Securities at amortised cost. The decline of our liquidity position with the ECB and the decline of the collateral deposited in relation to derivatives transactions are the main reasons for the lower balance sheet total.

BNG Bank's equity increased by EUR 0.3 billion to EUR 5.0 billion in 2018, largely as a result of the increase in net profit. The solvency ratios increased as well, mainly due to the addition of the 2017 retained earnings to the Tier 1 capital. In 2018, the Common Equity Tier 1 ratio and the Tier 1 ratio rose to 32% and 38%, respectively. The leverage ratio increased by 0.3 percentage point compared with year-end 2017, to 3.8%.

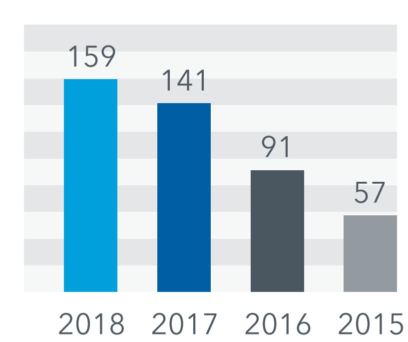
The positive trend in the level of the leverage ratio prompted BNG Bank to propose raising the pay-out percentage by 12.5 percentage point compared with 2017, to 50%. After deduction of the dividend distribution to providers of hybrid capital, an amount of EUR 318 million (2017: EUR 375 million) is available to shareholders. The proposal to pay out 50% of that amount represents a dividend of EUR 159 million (2017: EUR 141 million). The remainder will be added to the reserves. The dividend amounts to EUR 2.85 (2017: EUR 2.53) per share with a nominal value of EUR 2.50. Probably regulatory certainty relating to capital requirements will be provided in 2019. Subsequently, a new capitalisation and dividend policy for the long term can be drafted.

Leverage ratio increased to 3.8%

Common Equity Tier 1 ratio increased to 32%

Tier 1 ratio increased to 38%

Dividend
(Amounts in millions of euros)



BNG Bank proposes raising the **pay-out percentage** to **50%**.

3.2 Local authorities

BNG Bank's lending to local authorities increased substantially, again with a large market share. The turnover in this sector was EUR 4.4 billion, up EUR 1.3 billion relative to 2017. Almost all of the turnover was generated in the solvency-free sector. Nearly EUR 1.7 billion was provided to municipalities which, owing to their sustainability scores, are eligible for financing under the SRI Bond (see section 'Funding' in this report).

The financing provided by BNG Bank to local authorities largely takes the form of balance-sheet financing and therefore relates to all areas in which local authorities operate. We use our expertise to help municipalities find solutions to the financial issues they face. In 2018, we organised meetings covering the subject of sustainability and real estate with municipal policy-makers and we share our knowledge of building-related financing with four large municipalities. The way the bank operates sometimes results in it providing funding to institutions in other client segments for which municipalities act as guarantor. In other cases, we fulfil the role of 'caretaker' towards municipalities. For instance, in 2018 we helped the municipalities involved in revisions as at 1 January 2019 to complete the financial and administrative aspects in good time.

The extent of responsibilities of municipalities will remain unchanged. They perform a crucial leading role in the area of youth care and social benefits and make performance agreements with housing associations. The local authorities also have an important part to play in achieving the goals under the Climate Agreement, one element of which is working toward a built environment with zero dependency on natural gas. By no later than 2021, municipalities must have prepared their vision on the transition, specifying when districts will be made more sustainable and disconnected from the natural gas grid. Building-related financing, which is intended to boost the process of making private-sector housing stock more sustainable, is receiving particular attention. Several municipalities are conducting initiatives of their own because they think that the central government is taking too long to facilitate measures. It is expected that the improvement in the sustainability of the built environment will take on further importance in 2019. The local authorities perform the coordinating/facilitating role they have taken on in connection with this by providing guarantees for sustainability projects, or by financial participation through funds. We assist the local authorities by sharing its knowledge and providing them with funds to enable them to implement their ambitions efficiently. Examples include the funding of the Twente Solar Park, the Op Rozen energy corporation and the green energy company AGEM for which the municipalities from the Achterhoek region have provided guarantees. BNG Bank was involved as lender in 2018 for the Stichting Energietransitie Utrecht, an initiative of the municipality and province of Utrecht where businesses and institutions can take out loans to make their energy consumption more sustainable.

Making their real estate more sustainable is also high on the agendas of local authorities. Our 'Public Real Estate Scan', an online tool we use to give our clients an instant idea of the measures necessary to improve the sustainability of their real estate and the costs involved, clearly meets a need. Over 4 million m^2 metres of real estate have now been identified using this tool. In the second half of the year, we also made the tool available to clients in the housing association, healthcare and education sectors, in addition to the public sector.

The Inter-administrative Programme (Interbestuurlijk Programma, IBP) was launched in February 2018. Its purpose is to improve cooperation between the central government, municipalities, provinces and water authorities, so they can jointly address about ten major social challenges for the Netherlands. One of the programme items is the strained situation in the housing market, which has been accommodated in the 'Future-proof living' (Toekomstbestendig wonen) challenge. Among the elements in this programme is an analysis of the housing requirements, target groups and bottlenecks, a fund for inner-urban redevelopment and a cohesive approach with a focus on housing, health care, accessibility, education and economy in situations marked by contraction. The Minister of the Interior and Kingdom Relations has now set up a revolving fund for inner-urban redevelopment, with the proviso that the market acts as co-lender. BNG Bank views this fund as an important initiative and has since promised its support, committing to provide funds in the same amount, and is prepared to co-fund suitable projects. This will double the facility's impact.

The 17 Sustainable Development Goals (SDGs) will be important agenda items for the government and the business community until 2030. Although the contribution of local authorities to achieving these SDGs is essential, they will only succeed in performing this task by working with each other and with the business community. Businesses have to contend with a shortage of financing in implementing their solutions to social and ecological problems on a larger scale. BNG Bank and the Association of Netherlands Municipalities have brought together municipalities, businesses and financial backers in the 'Global Goals Social Impact Challenge' to present sustainable ideas in order to make an impact on SDG 12: 'Responsible consumption and production'. More than 60 plans relating to the energy transition, waste and recycling, and more sustainable consumption and production patterns were submitted. An initiative involving fully reusable battery systems for apartment complexes was declared the winner of the Challenge at the end of November. The parties behind this initiative can count on the guidance of BNG Bank as regards its further elaboration and implementation.

Over 4 million m^2 of real estate has now been identified using our **Public Real Estate Scan**.

3.3 Housing associations

BNG Bank is the most important lender for housing associations and with that we can contribute to the challenges that housing associations have when it comes to availability, affordability and making rented homes more sustainable. The major investment challenges require housing associations to set priorities, all the more so since rising taxes could put investment ambitions under pressure. Against this background, maintaining low funding costs is a key focus area. Through refinancing arrangements and the restructuring of existing loan portfolios, we have helped housing associations to optimise their loan portfolios. Several financing arrangements where housing associations were able to close their derivative positions have been concluded as well. The amount involved in those arrangements was about EUR 400 million in 2018. BNG Bank also helped to fund the restructuring of the WSG housing association.

There has been a decline in the total debt position of housing associations in recent years and hence in the size of BNG Bank's loan portfolio. 2018 saw a turnaround when the portfolio grew slightly as a result of an increase in the investment level. The bank provided housing associations with EUR 5.5 billion in funds. The portion subject to solvency requirements was EUR 170 million. The turnover in this sector was more than EUR 1.0 billion above the level in 2017. A sum totalling EUR 0.9 billion was granted to housing associations whose sustainability performance meant they were eligible for financing under the Social Housing Bond. Based on the forecasts issued by housing associations, we expect to see an increase in investments and consequently the demand for credit in the years ahead. Sustainable investments account for an ever-increasing share of the total investments made by housing associations. The agreements in the Climate Agreement could cause this share to increase further still.

In 2018, BNG Bank participated in the first major non-guaranteed financing or refinancing of a non-SGEI (Service of general economic interest) portfolio following the entry into force of the revised Housing Act (Woningwet) when it granted a loan in excess of EUR 100 million to Wonen Limburg Accent. The portfolio consists largely of mid-range rent housing. Under the Act, it will no longer be possible to finance these activities in the long term under a guarantee from the Social Housing Guarantee Fund (Waarborgfonds Sociale Woningbouw, WSW). Ultimately, the funding will provide the Wonen Limburg housing association with greater opportunities to perform its social function. Several similar programmes are now in progress. The sluggish development of mid-range rent housing by market parties in many regions prompted the Minister of the Interior and Kingdom Relations to announce a broadening of the possibilities in this regard for housing associations. We are well-placed to support the sector in this regard.

3.4 Healthcare sector

The character of the healthcare sector is changing. Activities are being adjusted and care is increasingly being organised in a way that brings it closer to citizens. Variation between hospitals is increasing through specialisation as well. Whilst in recent years the emphasis in the healthcare sector has been on implementing changes to the system, the institutions seem to have adapted to the new reality in 2018. This will enable them to translate the anticipated developments relating to the demand for healthcare into new buildings or the sustainable renovation of their real estate. Expectations are, then, that the level of guaranteed financing will be higher in the years ahead than it was in 2018.

Demand for long-term loans has declined in all healthcare sectors in recent years. This trend is also reflected in the course of the long-term loans provided by BNG Bank over the same period and in the guarantee amounts issued by the Guarantee Fund for the Healthcare Sector (Waarborgfonds voor de Zorgsector, WfZ). Lending nevertheless increased slightly in 2018, rising by nearly EUR 0.2 billion to EUR 0.9 billion. In contrast with the decrease in loans granted under a guarantee from the Guarantee Fund for the Healthcare Sector – representing nearly a halving to EUR 0.2 billion – there was a substantial increase in non-guaranteed lending, which rose by more than EUR 0.3 billion to EUR 0.7 billion. Mirroring the assistance we have given to the housing association sector, we have also helped the healthcare sector to optimise the loan portfolios of healthcare institutions through refinancing and restructuring operations. We helped several institutions to settle derivative positions in 2018. Involving EUR 300 million, the restructuring of VU University Medical Center Amsterdam's loan portfolio represented a sizeable part of the turnover subject to solvency requirements in 2018. The sector had the bankruptcy of two hospitals to contend with in the reporting year. BNG Bank had a small amount outstanding from a loan to one of those hospitals. That loan was settled through the Guarantee Fund for the Healthcare Sector.

In 2018, BNG Bank signed the Green Deal for Healthcare with other stakeholders involved. The signatories to the Green Deal are committed to, among other things, curbing CO_2 emissions, making more economical use of raw materials, reducing the quantity of drug residues in water and creating a healthy living environment for patients and healthcare workers.

As in the **housing association sector**, we have **helped the healthcare sector** to **optimise** the **loan portfolios**.

3.5 Education

The sustainability challenge in primary and secondary education has been given a major boost thanks to the increased attention being paid to the Climate Agreement. The sustainability efforts have now moved beyond improving what are usually poor environments in schools. In an increasing number of locations, municipalities and school boards are considering potential alternatives for real estate management. BNG Bank is cooperating with a variety of partners, including Bewust Investeren, Stichting Maatschappelijk Vastgoed and Huren als Eigenaar, with a view to financing accommodation and making it more sustainable. These concepts so far make up just a small part of the markets and are for the most part implemented directly by municipalities. We are indirectly playing a part in making primary and secondary education more sustainable through its standard lending to municipalities. We are also actively involved in financing senior secondary vocational education and higher education (MBO and HBO) and research-oriented higher education (WO). BNG Bank competes with treasury banking in these segments. With a volume of EUR 60 million, direct lending was at a modest level in 2018.

BNG Bank is cooperating with **a variety of partners** with a view to **financing educational accommodation** and **making it more sustainable**.

3.6 Energy and infrastructure

In 2018, BNG Bank provided EUR 0.8 billion to fund various projects, principally in the area of energy and infrastructure. EUR 282 million of that sum was issued for sustainable energy generation and sustainable recycling.

3.6.1 Energy

BNG Bank is a committed partner for a more sustainable Netherlands. Substantial investments are required to make the Netherlands future-proof. Ambitious targets have been set in the Climate Agreement aimed at reducing CO_2 emissions. Making property more sustainable, increasing the share of energy generated in a sustainable way and replacing heating by natural gas with alternative sources of heat are the three pillars on which the energy transition is based. We have named contributing to the energy transition as the key objective of our sustainability efforts. In 2018, we financed solar energy, bioenergy, terrestrial heat and district heating networks projects. For instance, BNG Bank is co-funding the Borssele III/IV Wind Farm Sites in the North Sea, which following their completion in 2021 will provide more than 825,000 households with sustainable electricity. OneSolar has been granted a loan to install solar panels on the roofs of business and institutions. This has the potential to generate electricity for about 18,000 households. Sparkling Biomass has been granted a financing arrangement for the construction of an installation that can be used to produce renewable energy from biomass. As for geothermal energy, BNG Bank was involved in the funding of seven projects that could provide heating for greenhouses and houses. Through the ETFF, the Ministry of Economic Affairs and Climate Policy stimulates investments in still maturing energy transition market segments such as geothermal energy, energy saving, energy storage and biomass.
BNG Bank is providing the subordinated loans within this facility. The first loan under the ETFF was granted in 2018. This loan was issued to a company that recycles asbestos-contaminated steel scrap in a sustainable way. It enables CO_2 emissions to be cut annually by 150,000 tonnes compared with steel produced using iron ore.

3.6.2 Infrastructure

Improving physical and digital infrastructures is another important theme in the area of sustainability. The capacity of the physical infrastructure (road, rail and water) must be able to accommodate the growing demand for mobility. As well as the economic damage that it causes, congestion is also harmful to the environment. The Groene Boog A16 Rotterdam project is an example of an infrastructural project in which

Making a contribution to the **energy transition** is a **key objective** of our **sustainability efforts**.

BNG Bank was involved as a co-lender. The project involves the designing, building, financing and long-term maintenance (DBFM) of 11 km of motorway (A16) in Rotterdam. The road is intended to provide a solution to the frequent traffic congestion on the north periphery of Rotterdam. The road will be open to traffic in 2024. We also made a substantial contribution to the financing arrangement for the construction of the Blankenburg Tunnel, which will improve the accessibility of the Rotterdam port area, during the reporting year. An extensive fibre optic network is a sensible alternative to alleviate part of the physical mobility requirement, where high-speed data connections are crucial. We are one of the lenders for KabelNoord, which is set to install high-speed internet connections in parts of the province of Friesland.

Dilemma: financing the energy transition

BNG Bank acts as a banker on behalf of the public authorities. ‘Contributing to the energy transition considered necessary by the government’ is one of the key objectives of BNG Bank’s sustainability policy. Financial involvement by the government is a credit condition in this respect. However, thanks to technological developments, an increasing number of new projects are now feasible without any direct financial involvement on the part of the government. This situation presents the bank with a dilemma.

- Should the bank prioritise facilitating government policy and use that starting point to advance the financing of the transition, thereby accepting a slightly greater credit risk?
- Or should it stop financing those projects if they are arranged privately? This option has the potential to undermine the bank’s ambitions to be a key player when it comes to financing sustainable investments.

BNG Bank’s policy is that there must be a financial involvement of the government of ≥50%, or a financial involvement of the government of at least 33.3% in combination with a demonstrable policy-based involvement of the government, or a good intended for public service which may not be seized as it would obstruct the promotion of the public good.

3.7 BNG Sustainability Fund

Since February 2018, associations, companies and other business initiators have been able to take out loans ranging from EUR 100,000 to EUR 2.5 million under the BNG Sustainability Fund for projects that contribute to the sustainability objectives of municipalities or provinces. The Fund facilitates sustainability initiatives in the environmental field (such as sustainable energy generation and energy-saving measures) as well as in the socio-cultural field (healthcare, housing and education). By creating the fund, we are able to meet the growing demand for simple financing for sustainable projects. BNG Bank has initially made EUR 10 million available to the Fund with the intention of having it grow to EUR 25 million in the years ahead. This Fund supplements BNG Bank's regular lending and is supported by the Association of Netherlands Municipalities (VNG). The Dutch Municipal Housing Incentive Fund (Stimuleringsfonds Volkshuisvesting Nederlandse gemeenten, SVn) has been appointed as fund manager. Agreements have now been concluded for the financing of three projects, including one for electric vehicle charging points.

Through the **BNG Sustainability Fund**, we are able to meet the **growing demand** for simple financing for **sustainable projects**.

BNG Sustainability Fund finances initial projects

Electric charging points throughout the Netherlands, biomass central heating systems for swimming pools in Groningen and a sustainable apartment complex in Den Helder.

These three sustainable projects are the first to be implemented with financing from the BNG Sustainability Fund, which was launched in 2018.

1.8 million charging points for electric cars by 2035

Following the launch in February 2018, the pipeline gradually filled up. In conjunction with Energiefonds Utrecht and other parties, a loan of EUR 1.6 million was provided in 2018 to PARKnCharge, a company that. operates charging stations for electric cars. According to Gerwin Hop, founder of PARKnCharge, the Netherlands will need between 750,000 and 1.8 million charging points by 2035 to service all the electric cars that will be on the roads by that time.

3.8 Support for other sustainability initiatives

BNG Bank is one of the signatories to the Spitsbergen Agreement, in which thirteen banks, insurers, pension funds, asset managers and investors have agreed to start measuring as well as externally reporting the impact on the climate of their financing operations.

Telos, the institute for sustainable development of Tilburg University, has again developed two best-in-class frameworks at BNG Bank's request. One of the frameworks is based on the National Monitor of Sustainable Municipalities and the other on quantitative data from the social housing construction sector. They are used to measure the sustainability performance of municipalities and housing associations as well as to make the results of the measurements available to those clients. The frameworks are published on the BNG Bank website. Sustainability analysis firm Sustainalytics has again given the frameworks a positive assessment.

On 1 November 2018, we organised a Sustainability Day to inspire and inform our clients at the temporary Climate Planet Globe in Utrecht, where we explained our sustainability ambitions and initiatives. Visitors were treated to spectacular views from space via live-streamed images from NASA satellites, a film on climate change was screened, and architect and sustainability visionary Thomas Rau gave a speech on the urgent need for a sustainable future.

BNG Bank and Voldaan Public concluded a loan agreement at the Ministry of Economic Affairs and Climate Policy, under which Voldaan Public can support small and medium-sized enterprises by taking over the invoices that they send to municipalities. Because of this, small and medium-sized enterprises gain instant access to working capital. With this loan agreement, BNG Bank provides funds for small and medium-sized enterprises.

BNG Bank is a signatory to the 'Schuldenlab NL' initiative launched in November of the reporting year by Queen Máxima. This initiative, set up by banks, local authorities and aid organisations, helps municipalities to show consumers where they can turn for help with debts at the earliest possible stage.

As part of the export credit guarantee scheme (EKG), BNG Bank has concluded a number of refinancing agreements. With EKG, low fixed-interest financing is provided to export financiers for clients of Dutch exporters.

Further examples of the support that we offer for sustainability initiatives, as well as our sustainability policy (including exclusion criteria for lending), our human rights policy and procurement policy, are published on the BNG Bank website.

3.9 Payments and digital services

The Payment Service Directive 2 (PSD2) is an EU directive that ensures more uniform payment transactions. BNG Bank started with the adjustment of its payment systems in early 2018 to be ready for the PSD2 halfway through 2019. This also applies to Instant Payments, a transfer is in the beneficiary's account within 5 seconds.

Through 'My BNG Bank', we will provide our clients with a modern and efficient service. A foundation on the basis of which it will be possible to implement changes flexibly and speedily has been designed for the future-proof technology platform selected, fully in line with strict information security requirements. The preparations for this client portal have now reached an advanced stage.

The 'Digipass' has been used for several years to make payments. Next to this hardware token, the BNG Bank Digipass App has been introduced since September 2018. With this app on their mobile iOS or Android devices, BNG Bank clients can log in securely and sign orders digitally. In addition, the app will be designed eventually to make it possible for clients to log into 'My BNG Bank' in order to sign forms and documents digitally. The introduction of the Digipass App means that one of the actions for improvement resulting from the client satisfaction survey has been completed.

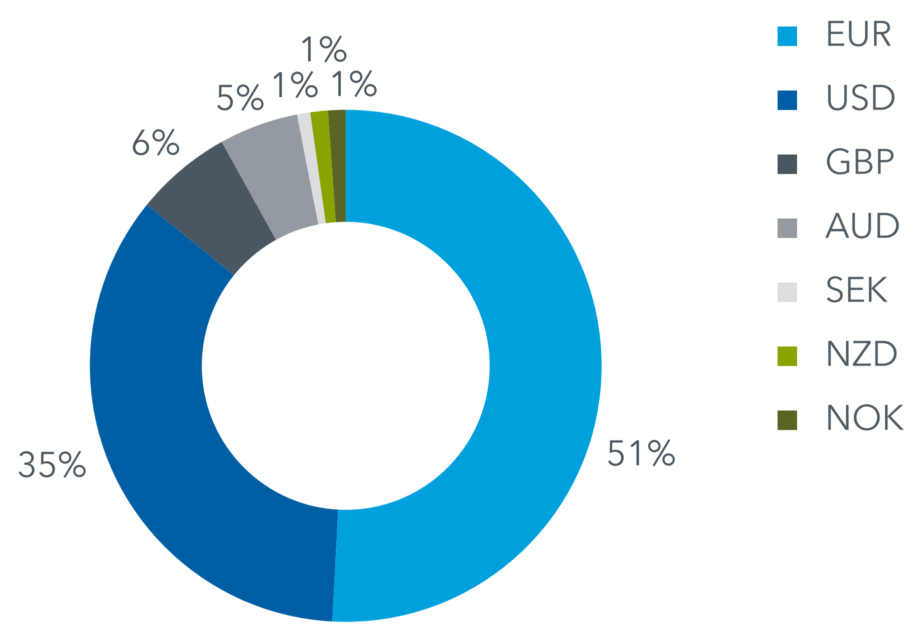
Further digitisation of internal processes, such as setting up a data warehouse, is slightly behind schedule. Capacity is increased to ensure that the intended objectives are achieved.

The **introduction** of the **Digipass App** marks the completion of one of the **actions for improvement** resulting from the **Client Satisfaction Survey**.

3.10 Funding

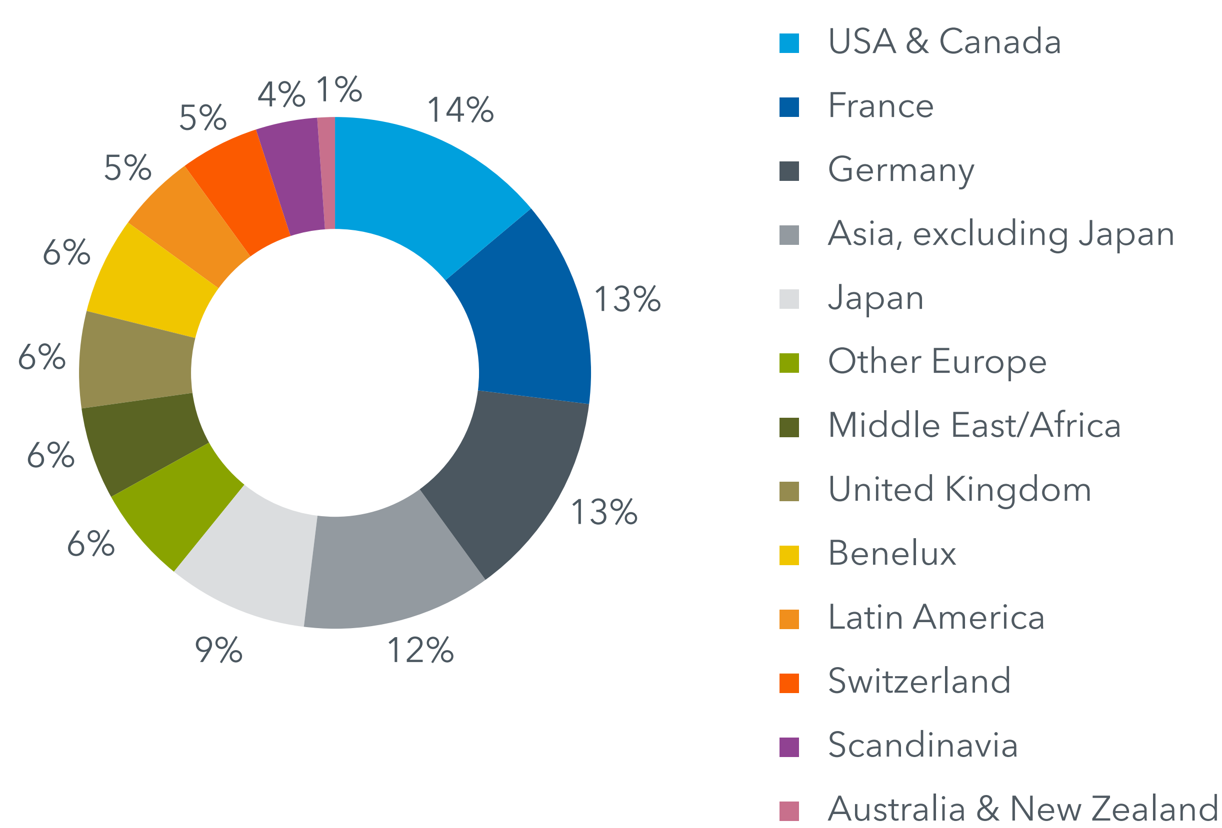
In 2018, BNG Bank raised the sum of EUR 18.4 billion (2017: EUR 17.7 billion) in long-term funding, by issuing eight benchmark loans in euros and US dollars ranging in size from 500 million to 2.5 billion, among other things. Owing to our good credit ratings and the favourable market conditions in the international capital markets, we were able to raise long-term and short-term funding at attractive prices. A breakdown by currency and geographical spread is shown in the figure below.

Funding, breakdown by currency



We were able to raise **long-term and short-term funding** in the **international capital markets** at **attractive prices**.

Funding, geographical spread



The Sustainable Bond Guidelines added to the Green Bond Principles by the ICMA (International Capital Market Association) in June 2017 were used this year as the basic principle for the issuing of two sustainability bonds. The criteria for the BNG Social Housing Bond, which was issued in November 2018, are based on SDG 11 'Sustainable cities and communities'. The loan, which was well received in the market, is for USD 500 million and has a maturity of three years. The net proceeds of the bond were used to finance loans to the 'best-in-class' housing associations mentioned in the framework. An SRI Bond for municipalities was also issued in November, for EUR 750 million and with a maturity of seven years, to provide financing to 'best-in-class' municipalities. With the issue of both bonds, nearly 7% of the total financing requirement was covered. Since 2014, BNG Bank has raised the sum of EUR 5.3 billion through eight bond loans that meet the Green Bond Principles and the Sustainable Bond Guidelines. The 'best-in-class framework' referred to above will be evaluated and where necessary adjusted even further in line with the wishes of sustainable investors. We anticipate issuing at least two more sustainability bonds in 2019. In addition, the first 'Renewable Energy Bond' was issued by means of a private placement in January 2019. This bond is linked to a wind farm project financed by us. The intention is to develop this form of issue further.

3.11 2018 targets and achievement

Substantial market share in solvency-free lending to core clients	
Result 2017	71%
Target 2018	Greater than 55%.
Result 2018	71%

Reasonable return on equity	
Result 2017	10.8%
Target 2018	Greater than or equal to return criterion set by Ministry of Finance (2018: 4.1%).
Result 2018	8.5%

Annual Report	
Target 2018	Financial data in accordance with IFRS 9.
Result 2018	Achieved.

Client satisfaction	
Result 2017	Client portal project plan adopted.
Target 2018	Roll-out of initial functionalities.
Result 2018	Not achieved. Client portal active in 2019.

Client satisfaction	
Result 2017	Client satisfaction survey: score 8.1.
Target 2018	Follow-up of recommendations.
Result 2018	Introduction of Digipass App, tightening of complaints handling procedure.

Composition of long-term loan portfolio: share of promotional loans	
Achieved 2017	Share of promotional loans in portfolio: 93%.
Target 2018	At least 90% promotional loans.
Result 2018	Share 92.9%

Lending for sustainable projects	
Result 2017	First concrete ETFF participations in assessment phase; loans for SDE-related projects achieved; loans for sustainable projects.
Target 2018	Further increase in loans for sustainable projects.
Achieved 2018	Achieved (see the 'Energy and infrastructure', 'BNG Sustainability Fund' and 'Support for other sustainability initiatives' sections).

Issuing sustainability bonds	
Result 2017	One SRI Bond and one Social Housing Bond.
Target 2018	At least one SRI Bond and one Social Housing Bond.
Target 2018	Evaluation of frameworks for assessing the sustainability performance of municipalities and housing associations for sustainability bonds.
Result 2018	One SRI Bond and one Social Housing Bond issued; evaluation of frameworks taken place.

3.12 Ambitions and outlook for 2019

BNG Bank expects the total volume of new long-term lending to approximate EUR 11 billion in 2019. A greater demand for lending from housing associations to enable investments in new homes is expected, as well as an increase in new lending for sustainability investments such as in renewable energy. We aim for a share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions of at least 55%. The target that at least 90% of long-term loans in the balance sheet must qualify as promotional loans remains in place as well.

In 2019, the funding policy will continue to be focused on ensuring permanent access to the money and capital markets for the terms and volumes required at the lowest possible rates in the medium term. BNG Bank intends to issue at least three benchmark loans in euros and US dollars as well as two SRI bonds in 2019.

The consolidated budget for standard operating expenses stands at EUR 82 million for 2019. Anticipated cost increases for hiring staff and investing in information technology are mainly linked to the project-related activities planned. The contribution to the statutory bank tax in 2019 which is determined on the basis of the balance sheet at year-end 2018, amounts to approximately EUR 30 million. BNG Bank has additionally taken account of a contribution to the European resolution fund of EUR 10 million.

The interest result is expected to range between EUR 410 million and 450 million. Continued turbulence on the financial markets and less favourable economic prospects make it impossible to provide a reliable statement on the unrealised results within the result on financial transactions. As a consequence, we do not consider it wise to make a statement on the expected net profit for 2019.

BNG Bank's ambitions for 2019 are linked to the strategic objectives and conditions in the overview below.

Strategic objective / condition	Ambition	Value
Relevant player	Market share in core client sectors.	≥ 55%
	Lending portfolio development.	Growth compared with year-end 2018.
	Lending for sustainable projects.	Growth compared with 2018.
	Client satisfaction.	≥ 8.0
	Share of promotional loans in portfolio.	≥ 90%
	SRI Bond issues.	At least one SRI Bond and one Social Housing Bond.
	Measurement of the lending portfolio's carbon footprint.	Portfolio's carbon footprint made measurable in accordance with PCAF methodology.
Reasonable return for shareholders	Return on equity.	Above Ministry of Finance return criterion: > 3.7%.
Excellent risk profile	Moody's, S&P and Fitch external ratings.	Ratings in line with the State of the Netherlands.
	Prudent capital position.	Leverage ratio ≥ 3.4% Tier 1 ratio ≥ 24%
Goal-oriented and efficient organisation	Development of interface with clients.	Delivery of client portal.
	Accessibility of payment services.	≥ 99.9%
	Sound cost structure.	Costs within budget: < EUR 82 million.
	Organisation's carbon footprint.	Carbon footprint reduced by 10% compared with 2018 Carbon-neutral business operations by 2020.

Governance and internal business operations

4.1 Corporate structure

4.1.1 Legal form and structure

BNG Bank is a statutory two-tier public limited company under Dutch law and was founded in 1914 by Dutch public authorities. BNG Bank's shareholders are Dutch public authorities exclusively. Half of the bank's share capital is held by municipal authorities, provincial authorities and a water board. The other half of the share capital is held by the Dutch State. BNG Bank receives no financial assistance or benefit from the government.

BNG Bank's balance sheet total make it the fourth-largest bank in the Netherlands. It is a bank of national systemic importance and comes under the direct supervision of the ECB. BNG Bank has one branch, which is established in The Hague. Effective 27 August 2018, we updated our articles of association, at that time changing the name in the Articles of Association from 'N.V. Bank Nederlandse Gemeenten' to 'BNG Bank N.V.'. 'BNG Bank' has been used as the trade name since 2013.

BNG Bank has two subsidiaries. BNG Gebiedsontwikkeling B.V. is specialised in risk-based participation in land development, process design and process guidance for municipalities and other public or semi-public organisations. The Supervisory Board of BNG Gebiedsontwikkeling and the Executive Board of BNG Bank decided in March 2018 not to start any new activities or projects within BNG Gebiedsontwikkeling as well as to complete the projects within the existing portfolio in the next few years. Hypotheekfonds voor Overheidspersoneel B.V. used to issue mortgages on favourable terms for public sector employees. BNG Bank decided to discontinue this product and to accept no new clients from 2013. In addition, BNG Bank has two participations with significant influence. The first participation concerns Dataland B.V., a municipal non-profit initiative with activities that lead to the broad accessibility of all possible data concerning registered property from the information domain of municipalities and / or other public bodies. The second participation concerns Data B Mailservice Holding B.V. This company provides print and mail services and services relating to payment transactions, direct marketing and message traffic, among others to government institutions. BNG Bank is a member of the Dutch Banking Association (NVB), the European Association of Public Banks (EAPB) and the International Capital Market Association (ICMA).

BNG Bank's balance sheet total makes it the **fourth-largest bank** in the **Netherlands**.

BNG Bank has a two-tier governance structure consisting of a Supervisory Board and an Executive Board. The Supervisory Board's task is to monitor the policy of the Executive Board and the general course of affairs in the company and its affiliated enterprise. The members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders. The Supervisory Board has four committees: the Audit Committee, the Risk Committee, the HR Committee and the Remuneration Committee. The committees prepare decision-making by the Supervisory Board. The responsibilities and activities of the Committees are described in further detail in the 'Report of the Supervisory Board' section.

The Executive Board is charged with the day-to-day management of BNG Bank. The Executive Board is responsible for managing the company. The Chair and other members of the Executive Board are appointed and dismissed by the Supervisory Board. Members of the Executive Board are appointed for a period of four years, after which they can be reappointed by the Supervisory Board for additional periods not exceeding four years at a time. The Supervisory Board assesses the performance of the Executive Board each year.

There were no changes of note in the organisation of BNG Bank nor in the chain within which the bank operates in 2018.

4.1.2 Composition of the Executive Board

The Executive Board consists of three members, including a Chair. The Executive Board has allocated its duties in such a way that individual members are given responsibility for specific components of the Executive Board's management duties. A change in the division of tasks of the Executive Board took place on 1 October 2018.

Gita Salden, CEO

Gita Salden (b. 1968) was appointed as Chair of the Executive Board with effect from 1 January 2018. In connection with her position at BNG Bank, Gita Salden is a board member of the Dutch Banking Association (NVB).

Gita Salden's particular focus areas include public finance/lending, marketing and communications, organisational development/HR policy, the internal audit department, and the company secretariat and economic research department. She was also responsible for compliance until 1 October 2018. In addition, she is responsible for general coordination and strategy, as well as Chair of the Management Board and the Assets & Liability Committee.

Olivier Labe, CFO

Olivier Labe (b. 1969) was appointed as Executive Board member on 1 May 2015. In connection with his position at BNG Bank, Olivier Labe is Chair of the Supervisory Board of BNG Bank subsidiary Hypotheekfonds voor Overheidspersoneel B.V. and Chair of the Supervisory Board of the BNG Sustainability Fund (Stichting BNG Duurzaamheidsfonds). He also sits on the Supervisory Board of ASR Vermogensbeheer N.V., and is a member of the Advisory Board for the Faculty of Economics and Business at the University of Amsterdam.

Until 1 October 2018, Olivier Labe's particular focus areas included financial markets and treasury, asset & liability management, investor relations, and legal and tax affairs. From 1 October 2018, he is responsible for financial reporting, financial markets and treasury, asset & liability management, capital management, investor relations, legal and tax affairs, and sustainability. Olivier Labe is Chair of the Capital Policy and Financial Regulations Committee, the Investment Committee and the Sustainability Committee.

John Reichardt, CRO

John Reichardt (b. 1958) was appointed as Executive Board member on 15 October 2008. In connection with his position at BNG Bank, John Reichardt is Chairman of the Supervisory Board of Data B. Mailservice Holding B.V., a member of the Supervisory Affairs Committee of the Dutch Banking Association (NVB), a Supervisory Board member of BOEI BV, a Supervisory Board member of BNG subsidiary Hypotheekfonds voor Overheidspersoneel B.V. and Chairman of the Supervisory Board of BNG subsidiary BNG Gebiedsontwikkeling B.V. He is also a Supervisory Committee member of the RDW.

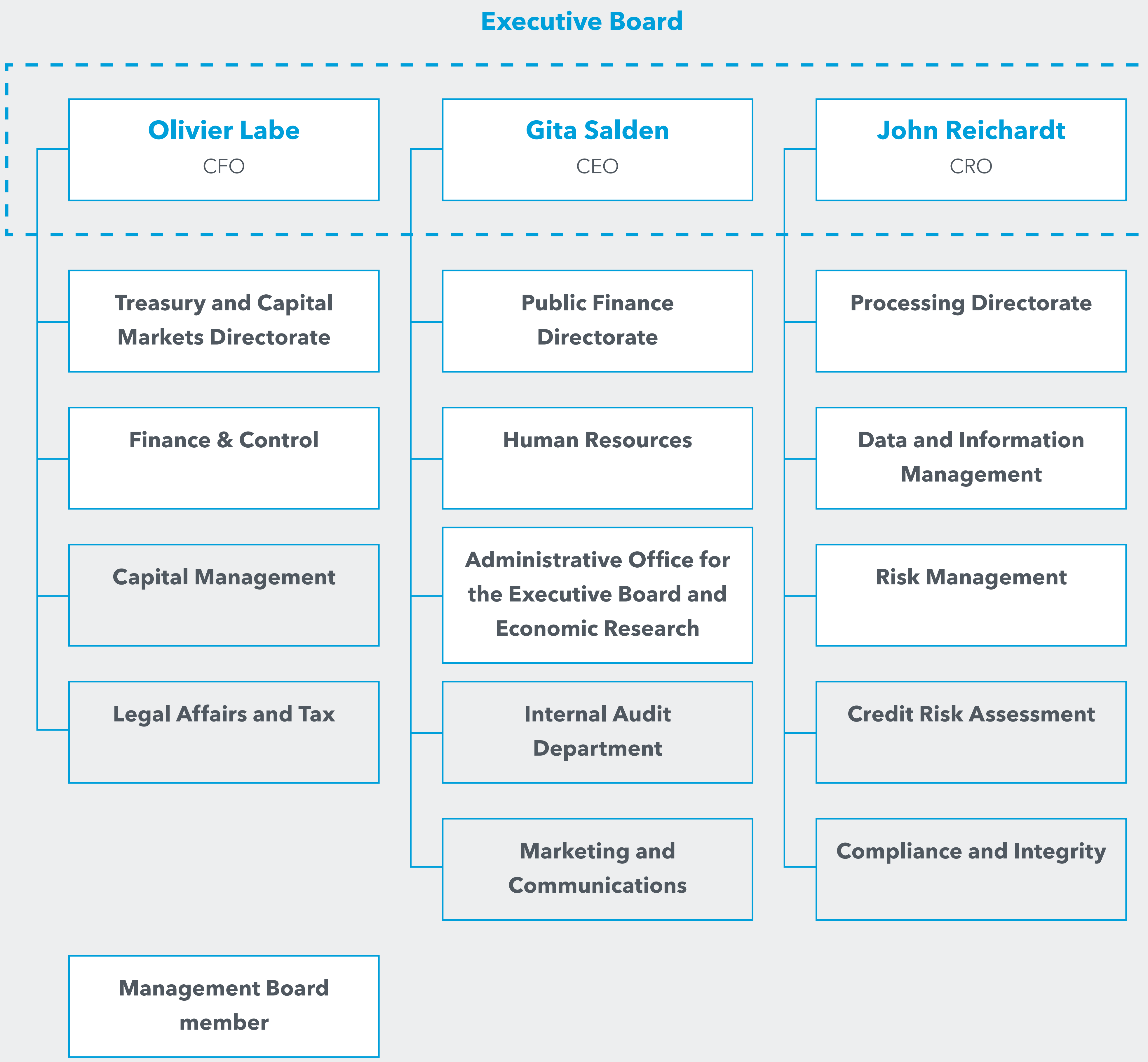
Until 1 October 2018, John Reichardt's particular focus areas included risk management, financial reporting, external supervision (ECB, DNB and AFM), processing, and data and information management. As from 1 October 2018, he is responsible for compliance, risk management, external supervision (ECB, DNB and AFM), processing, and data and information management. In addition, he is Chair of the Credit Committee as well as of the Financial Counterparties Committee.

4.1.3 Management Board

The Executive Board meets on a weekly basis. In addition, the Management Board meets twice a month. Next to Executive Board members, there are eight senior managers on the Management Board. The Executive Board members have formal authority to make decisions and the remaining members may give an advisory opinion. The Management Board focuses on defining and adopting the organisational policy within the framework of the strategy and the strategic objectives of the company, the setting up and determining and monitoring of the commercial policy, within the constraints imposed by capital allocation in the context of the solvency limits, and managing the general course of affairs and projects.

The organisation chart shows the structure of the organisation as at 1 October 2018 and indicates the Management Board members. There are also six Executive Board committees which advise and assist the Executive Board in its tasks. A description of the tasks and members of these committees is published on the website.

Organisation chart after 1 October 2018



4.1.4 Management cycle

The Executive Board is responsible for strategy, company objectives, content and implementation of policy. The directors and department heads that report directly to the Executive Board are responsible for achieving the objectives in accordance with the policy frameworks and for measuring performance. The Executive Board monitors policy implementation and the achievement of objectives on the basis of monthly or quarterly reports prepared by the directors, department heads and the control functions. Where necessary, adjustments are made on the basis of progress against the objectives. The performance in relation to the objectives is reported externally in the annual report.

In turn, the Executive Board and senior management evaluate policy as well as the objectives set in preparation for the annual management cycle. The lessons drawn from the evaluation are incorporated into the following management cycle and reported to the Supervisory Board. New policy and procedures are assessed in terms of coherence with existing policy and procedures, and implemented by means of work meetings and publication on the intranet. The policies, procedures and support systems of BNG Bank and its subsidiaries are subject to internal audits.

4.2 Risk management and compliance

4.2.1 Risk management

Risk management is aimed at maintaining BNG Bank's risk profile. The stakeholder model is used to identify the interests and expectations of the different stakeholders in relation to the risk profile. This information is used to formulate ambitions for four components: 'profitability', 'solvency', 'liquidity' and 'reputation and brand'. These ambitions have been elaborated in qualitative terms and then quantitatively in the Risk Appetite Statement. Subsequently, cascading has taken place with regard to the risk tolerance limits for different risk types. This process has resulted in limits, targets and reference figures, which we use in daily practice to manage our risks. Further details about this risk management process and the resultant risk profile may be found in the explanatory 'Risk Section', part of the Consolidated Financial Statements, and in the separate Pillar III report. In 2018, BNG Bank remained within its pre-determined risk tolerance limits. There were no major changes in BNG Bank's risk profile. The results of the EBA stress test again showed that BNG Bank is one of the most solid banks in Europe.

In relation to operational risk, BNG Bank paid particular attention to the implementation of the General Data Protection Regulation (AVG), the revised Act on the prevention of money laundering and the financing of terrorism (Wwft) and the EBA Guidelines on Internal Governance. The bank also gained experience for the first time in 2018 with the application of the revised Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR).

4.2.2 Legislation and regulations, guidelines and codes of conduct

BNG Bank is bound by various laws and regulations, guidelines and codes of conduct. One of the themes in 2018 was the entry into force of MiFID II. MiFID II revises the EU Markets in Financial Instruments Directive (MiFID), which was introduced in 2007, and introduces the EU Markets in Financial Instruments Regulation (MiFIR). With all the necessary preparations completed in 2017, 2018 mainly saw the implementation of amended internal processes.

The Capital Requirements Directive IV (CRD IV), also known as the Basel III Agreement) will be fully implemented within the EU in 2019. BNG Bank follows the developments, assesses the impact and gives feedback on the regulatory consultations.

The **results** of the **EBA stress test again** showed that BNG Bank is one of **Europe's soundest banks**.

The EBA guidelines relating to internal governance, which entered into force on 30 June 2018, are another important development for BNG Bank. These guidelines have resulted in some aspects of decision-making and control processes being tightened. The laws, regulations and guidelines relevant to the annual report are included in the 'Reporting principles and data-measuring technique' section. In addition, BNG Bank subscribes to several codes of conduct as well as international conventions and guidelines. BNG Bank is obliged to comply with the Dutch Banking Code (since 2010) and the Dutch Banking Sector Agreement on international responsible business conduct regarding human rights (2016). As a consequence of the latter agreement we will apply the Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk in project finance, from 2019 onwards. The recommendations under the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises will be implemented in the relevant procedures.

BNG Bank voluntarily participates in the Sustainable Development Goals, the Spitsbergen Agreement (2018), and the Dutch Corporate Governance Code (2016 revised version). BNG Bank complies with the provisions of the Dutch Corporate Governance Code by ensuring that working methods are aligned as closely as possible with the Code, among other things. In 2018, the final arrangements in that regard were completed, principles and best practice provisions of the Code were implemented and laid down in working methods by the bank, published on the BNG Bank website or included in this annual report. An overview of compliance with the principles and best practice provisions may be found on the BNG Bank website.

4.2.3 Ethical business practices

Ethical business practices are an important foundation of BNG Bank. Ethical standards of behaviour on the part of its Executive Board members and employees, as well as providing fair products and services, are a key element in this regard. BNG Bank applies internal policy rules and procedures to safeguard this foundation and ensure compliance with relevant laws and regulations. Among other things, they provide for the monitoring of employees' private investment transactions, avoiding and where necessary transparently managing conflicting interests and shielding confidential information. Full attention is also given to maintaining and raising awareness of financial regulations, compliance procedures, and anti-fraud and corruption measures, for example. BNG Bank also has procedures for accepting new clients, monitoring existing clients and avoiding involvement in money laundering. BNG Bank does not contribute to political bodies, either directly or indirectly.

The General Data Protection Regulation (AGV) was implemented within BNG Bank in 2018, which has resulted in the reinforcement and safeguarding of the right to privacy of clients and employees. BNG Bank has also implemented the revised Act to prevent money laundering and terrorist financing (Wwft) in 2018, including Customer Due Diligence (CDD) as the most important part. The existing procedures for accepting new customers, monitoring existing customers and preventing involvement in money laundering have been brought into line with the new rules.

The duty of care, **acting** in the **client's interests**, **has priority** in the **bank's services**.

All new internal and external employees receive a copy of the BNG Company Code, which is closely related to integrity and all internal and external employees have taken the Dutch bankers' oath. All new internal employees participated in an introductory meeting or in the basic module of the internally developed knowledge program, in which attention is also paid to compliance and integrity.

The duty of care, acting in the client's interests, has priority in the bank's services. Accordingly, we aim to provide straightforward and transparent products that meet the needs of its clients. Considerable attention is given to providing clients with clear and concise information and warning them of the risks attached to certain products. The complaints handling procedure has also been tightened. The procedure is available on the BNG Bank website.

The Systematic Integrity Risk Analysis (SIRA) carried out by BNG Bank and its subsidiaries in 2018 means that all activities are assessed for corruption-related risks in principle. This has been done by specifying scenarios in which a corruption-related risk could occur, including the possibility of corruption among our customers. Thirteen such scenarios were outlined. The analysis revealed that improving knowledge and understanding among our employees in relation to Customer Due Diligence policy could lead to a more adequate detection of corruption by a client or potential client. This will be addressed in the revised CDD policy.

BNG Bank's 'Anti-Corruption and Conflicts of Interest Policy' was approved by the Executive Board in 2018 and published on the intranet, where it can be accessed by every employee. Various regulations mentioned in that policy such as the BNG Company Code, the Regulations Governing Private Investment Transactions, rules for business gifts and rules for employees holding additional positions are published on the website of BNG Bank and are therefore accessible to all business partners. No specific training on anti-corruption policy and procedures was given in 2018. Courses were provided for all employees – including Executive Board members – on how to deal with dilemmas, which also addressed corruption.

No (significant) compliance- and integrity-related incidents occurred in 2018. We were not involved in any legal proceedings or sanctions related to non-compliance with laws and regulations in the field of financial supervision, corruption, human rights, competition, product liability, or privacy, or because of anti-competitive measures in which BNG Bank has been a direct or indirect party. As far as we are aware no data leaks occurred in 2018.

Dilemma: scope of CDD policy

BNG Bank's Customer Due Diligence (CDD) policy aims to prevent BNG Bank from having or entering into a business relationship with a client if it would lead to an unacceptable integrity risk; for example, damage to its reputation. Maintaining its reputation as a reliable and safe bank is of great importance to the bank, given its specific nature (government bank, top ratings). To this end, should the bank's policy extend beyond the law and prescribe its own CDD policy? For example, BNG Bank's clients in turn do business with suppliers who fall outside the scope of the bank's CDD policy. It could happen that one of these suppliers at some point appears to meet the exclusion criteria of the bank. We are still considering the question of what responsibility and possibilities BNG Bank has for actually responding to situations such as this one.

4.3 Employees

The basic principle of 'having the right employee in the right place' is of crucial importance to BNG Bank with its modestly sized workforce of around 300 employees. We must be able to respond rapidly to the changing requirements of clients or take the initiative ourselves to make the necessary changes. The 2018–2020 HR strategy provides the framework for a future-proof workforce. It is intended to result in an agile and flexible organisation. Sustainable employability, mobility, diversity, a responsible remuneration policy, flexibility and development are the key elements.

The dynamic environment in which we operate is causing employees to change positions. Promoting mobility is a way of ensuring that positions are filled by the right people. This process involves inflow and outflow of employees or employees changing positions internally. In this respect, a career interview will be conducted as from 2019 with every employee who has worked in the same position for more than three years. Such interviews are aimed at identifying the desired length of stay in a position and making agreements about the actions that need to be taken if a new position is to be assumed. A mobility budget has been in place since 1 January 2017. Every employee has the opportunity to participate in activities associated with mobility and sustainable employability, which are further developed from that basis.

High potentials, key function holders and employees requiring extra attention were identified in 2018. HR policy, set to be implemented in 2019, has been developed for high potentials and will include offering attractive career prospects. For key function holders, possibilities are being sought to reduce the vulnerability. Ways to improve their performance were discussed with employees requiring extra attention.

The 'Workforce' appendix contains an overview of sickness absence as well as the composition of the workforce by age and gender, inflow and outflow, and full-time and part-time employment, among other things.

Employee commitment	
Target 2018	Employee commitment survey.
Result 2018	Not achieved. The employee commitment survey will be carried out in 2019. All employees underwent a culture assessment in 2018.

Utilisation of available quantity and quality	
Result 2017	Mobility/sustainable employability budget created.
Target 2018	Encourage meaningful utilisation of available budgets by attractive offer.
Result 2018	Partially achieved. About 50% of the mobility budget and about 80% of the training budget were used.
Target 2018	Develop performance management system for employees.
Result 2018	Achieved; system has been modified and will be implemented from 2019 onwards.

Promote employee mobility	
Result 2017	Policy for promoting mobility included in 2018–2020 HR strategy. Internal and external internships realised.
Target 2018	Programme focused on sustainable employability.
Result 2018	Achieved. Programme largely comprises opportunities that employees can utilise within the mobility budget.

Competitive and reasonable terms of employment	
Result 2017	Generic job descriptions pilot used.
Target 2018	Completion of pilot phase and preparation of action plan.
Result 2018	Realised.
Result 2017	New remuneration policy implemented.
Target 2018	Study of possibilities for making employees' growth in salary scale dependent on personal development.
Result 2018	Not achieved. Priority given to strategic employee planning, culture survey, HR strategy and diversity policy.

Diversity	
Target 2018	Determine targets for a more even men/women ratio and age structure of the workforce.
Result 2018	Not achieved. Diversity policy will be implemented further in 2019.

4.4 Remuneration policy

BNG Bank's remuneration policy is in line with its identity and strategy, and is situated within the statutory and policy frameworks relating to remuneration. In recent years, the bank has made various adjustments and implemented economy measures in the remuneration policy for the Executive Board as well as its employees. BNG Bank makes no distinction by gender in its remuneration.

The Supervisor Board monitors the remuneration policy. The general principles of the remuneration policy for the Executive Board and the employees have been approved by the Supervisory Board. Each year, the implementation of the remuneration policy is reported to the Supervisory Board and the Supervisory Board assesses whether the policy meets the principles for a restrained remuneration policy. The General Meeting of Shareholders approves the remuneration policy of Executive Board members and the remuneration policy for the Supervisory Board. The external auditor examines whether this procedure is applied correctly but does not have an advisory role in determining the level of remuneration.

Performance-related remuneration was abolished for all employees with effect from 1 January 2017. The total variable remuneration for employees (consisting of a profit distribution and a discretionary bonus in exceptional cases) may never exceed 20% of the fixed remuneration. Where this limit would be exceeded, capping will be applied. Executive Board members do not receive variable remuneration. A lump-sum arrangement was agreed with one Executive Board member who was still entitled to variable remuneration in 2018. Supervisory Board members' remuneration was not changed in 2018. The remuneration of the Executive Board and the Supervisory Board is reported on in the Annual Accounts.

The salary of the highest-earning member of the Executive Board in 2018 was 4.5 times the average salary of BNG Bank employees. In 2017, this ratio was 6.2. The salary of the highest-earning member of the Executive Board in 2018 was 4.8 times the median of the salary of BNG Bank employees. In 2017, the salary of the highest-earning member of the Executive Board was 6.7 times the median of the salary of BNG Bank employees. The salary of the highest-earning member of the Executive Board in 2018 decreased by 27.4% compared to the highest-earning member in 2017. This decrease is the result of the departure of the highest-earning member of the Executive Board at the end of 2017. The average salary (relating to labour costs) of BNG employees rose by 1.36%.

The remuneration policy and the Remuneration Report are published on the BNG Bank website.

4.5 Diversity policy for Supervisory Board and Management Boards

BNG Bank encourages the acquisition, retention and use of diverse talent. We respect the differences and see added value. A diversity policy was drawn up for the Supervisory Board, Executive Board and Management Board. In line with the Corporate Governance Code we have included the following elements in the diversity policy: (1) gender, (2) age, and (3) knowledge and expertise.

The bank aims to ensure a balanced distribution of the seats in the Executive and Supervisory Boards. Since the appointment of Marlies van Elst as member in April 2018, the Supervisory Board consists of eight members, five men (63%) and three women (37%). With the appointment of Gita Salden as Chair of the Executive Board with effect from 1 January 2018, the Executive Board now consists of two men (67%) and one woman (33%).

BNG Bank also aims for a balanced composition within the Management Board. As at 1 January 2018, the Management Board consists of seven men (64%) and four women (36%). 28% of the management roles within BNG Bank are performed by women.

The following table provides a breakdown by age category of the Supervisory Board, Executive Board and Management Board.

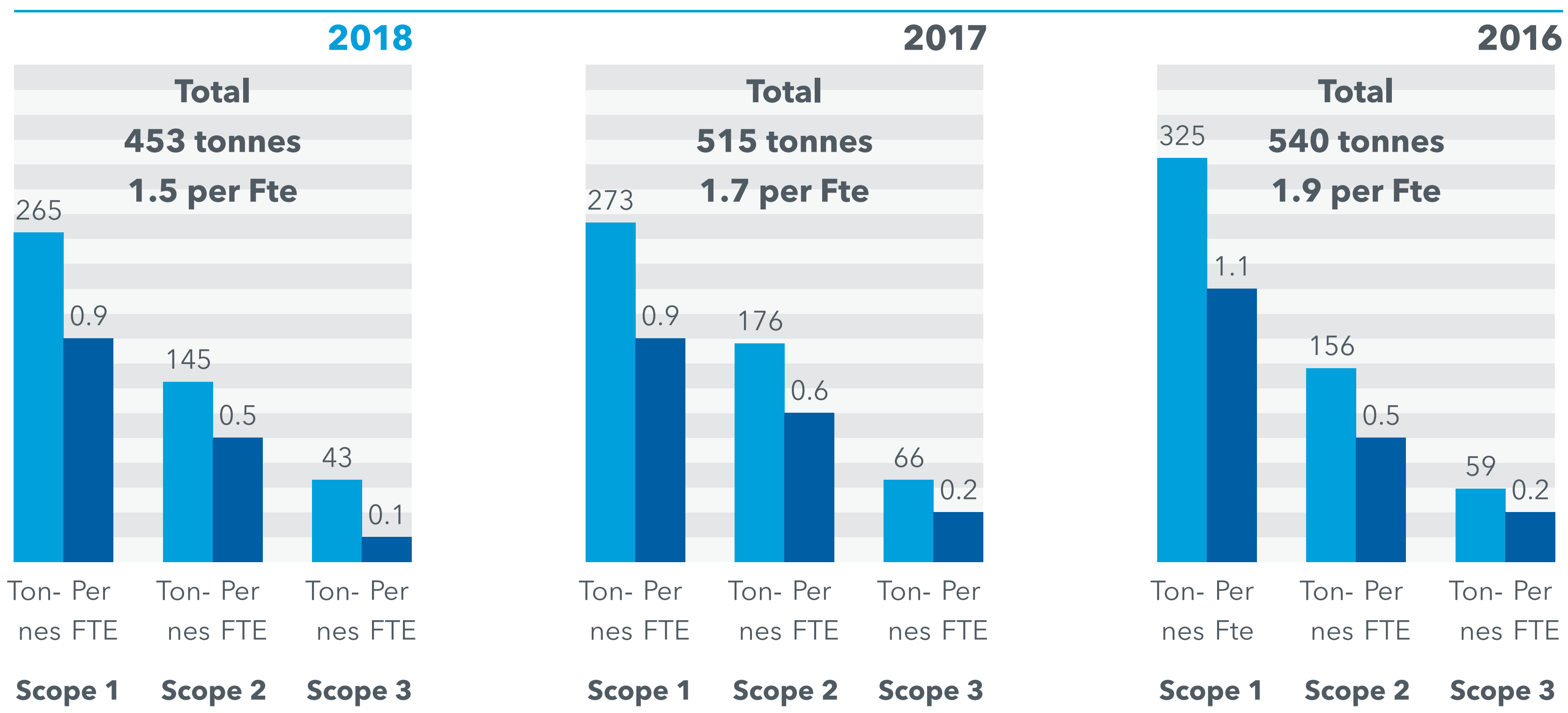
	SUPERVISORY BOARD	EXECUTIVE BOARD	MANAGEMENT BOARD
≤ 34 years	0	0	0
35 – 44 years	0	0	1
45 – 54 years	1	2	6
55 – 64 years	2	1	4
≥ 65 years	5	0	0
Average age	64	53	54

In 2018, the Supervisory Board discussed the existent and the desired expertise within the Supervisory Board. The required areas of knowledge and other areas of knowledge, the required experience and other experience, and specific skills for the Supervisory Board were defined in the expertise matrix drawn up for this purpose. It was established that there are no gaps in areas of knowledge, experience and skills, nor are there any gaps in knowledge, experience and skills within the Executive Board.

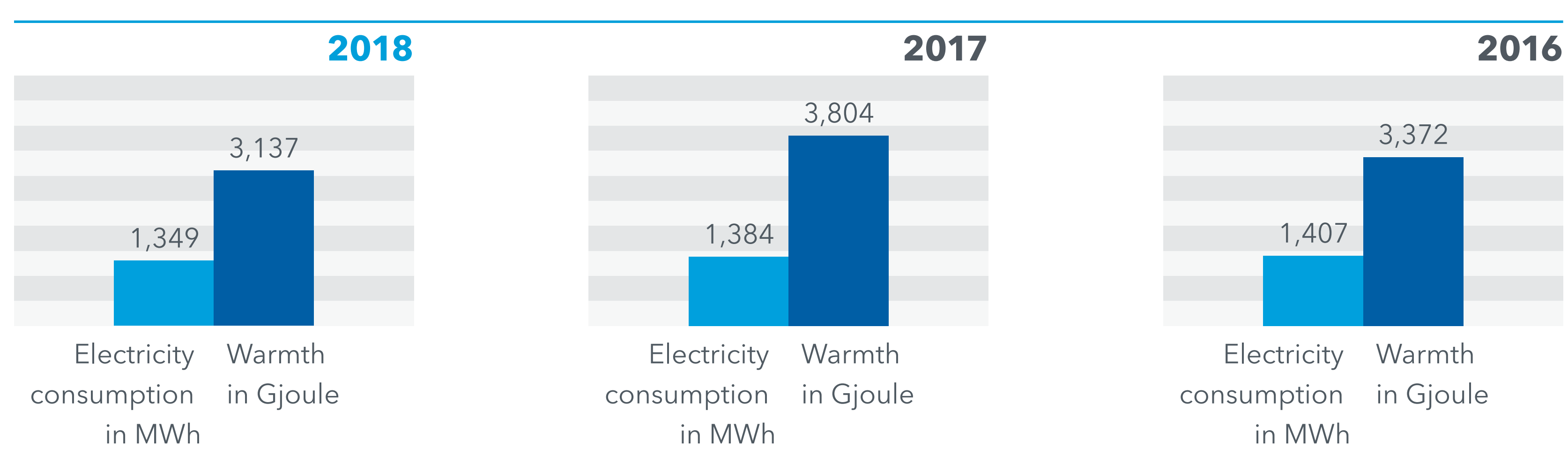
4.6 Sustainable operations

BNG Bank aims to keep its impact on the environment as limited as possible. In the reporting year, we set down our ambition to reduce our building and use-related energy consumption to 130 kWh per m^2 by 2020 as well as to cut down in the long term to 50 kWh per m^2 per year. The energy consumption this year is 150 kWh per m^2. To ensure that this target is achieved, we are assessing the most effective measures jointly with a technical adviser. A metering programme has been set up to collect specific data.

CO_2 footprint



Energy consumption



The first solar energy sponsorship agreement was concluded in 2018 with a hospital as a means of offsetting the carbon footprint. The sponsorship will take effect from 2019. Through the use of so-called 'Soft Points', the proceeds of solar energy are donated to civil society organizations that play an important role in the local society. In this case solar energy is made available to the hospital. This way, the hospital is using the money saved on energy costs as a sustainability budget for other initiatives. BNG Bank receives a CO_2 compensation certificate. We are consulting with another two organisations about energy sponsorship agreements.

BNG Bank uses four large suppliers, including office supplies and cleaning product suppliers, which jointly account for 96% of the total procurement budget. Three suppliers have ISO 14001 and Eco Vadis certification. Sustainability aspects have been discussed with the fourth supplier. A new supplier of office supplies was selected in 2018. This supplier is ISO 14001 certified.

Reduce CO_2 emissions	
Result 2017	CO_2 emissions 515 tonnes, car lease scheme tightened
Target 2018	CO_2 compensation via Softs-points.
Result 2018	CO_2 emissions 453 tons. CO_2 compensation has not yet been realised. Phased approach via Softs-points with effect from 2019.

Increase level of sustainable procurement	
Result 2017	Electricity consumption reduced, heat consumption increased; 96% of the purchasing budget spent through certified or assessed suppliers
Target 2018	Energy consumption reduced through modification of climate control system
Result 2018	Energy and heat consumption decreased. First changes to the climate system have been implemented.

4.7 Corporate Governance Statement

The internal risk management and control systems are an important point of attention within BNG Bank. The Risk Governance Framework forms the basis for all risk management activities within BNG Bank. It clarifies the principles behind the internal control and risk management system. The Risk Appetite Statement describes the risks that the bank wishes to accept in order to achieve its objectives. The various risks attendant on the bank's activities are discussed each year in BNG Bank's Annual Report. In their 'In control' statement to the Executive Board, the managing directors and department heads reporting directly to the Executive Board focus on risk management in relation to the bank's risk appetite. They also set out in the Annual Plans how they aim to fulfil their responsibility in meeting the bank's risk appetite. The overall framework is closely linked to the bank's capital management policy, which is periodically reviewed and discussed with the regulator.

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

The Annual Report provides sufficient insight into shortcomings in the operation of BNG Bank's internal risk management and control systems. The aforementioned systems provide a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. Obviously, these systems can not of themselves provide absolute certainty for realising the corporate objectives and not prevent all inaccuracies, fraud and violation of laws and regulations. A detailed explanation is included in the Risk Section in the Annual Accounts. The consolidated financial statements are prepared on the basis of the going-concern principle. No material risks and uncertainties were identified which are relevant to the expectation of the company's continuity for a period of twelve months after the preparation of the report.

Declaration of responsibility

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

The Hague, 15 March 2019

Executive Board
Ms Gita Salden, Chair (appointed 1 January 2018)
Olivier Labe
John Reichardt

731.5 Megawatt

825,000

households

Borssele Wind Farm will provide power to 825,000 households

In late 2019, construction will begin on the Borssele III/IV Wind Farm off the coast of Borssele on the North Sea. Borssele III/IV will have a capacity of 731.5 MW, which is enough to supply 825,000 households with sustainable power.

Blauwwind Consortium, a partnership between Shell, Eneco, Van Oord, Partners Group and Mitsubishi, will begin constructing and commissioning 77 wind turbines from turbine manufacturer MHI Vestas at the end of 2019. The finance agreement was signed in June 2018. BNG Bank is one of the lenders. The production of sustainable electricity is expected to commence in early 2021. The electricity generated by the 77 turbines will be purchased exclusively by Shell and Eneco for a period of 15 years.

Estimated useful life of 25 years

Borssele Wind Farm is a group of offshore wind farms that were put out to tender from 2016. The Borssele Wind Farm Zone is located near the Dutch-Belgian border, 22 kilometres off the coast of Zeeland. Five concessions for Borssele Sites I through V have been granted in this Wind Farm Zone. Blauwwind consortium has obtained approval from the Dutch government to develop, build as well as operate Borssele Offshore Wind Farms III and IV under a 30-year lease and with an estimated useful life after construction of 25 years. The wind farms will use 9.5 MW turbines from MHI Vestas.

Report of the **Supervisory Board**

5.1 Foreword

Like the Executive Board, the Supervisory Board looks back on the year 2018 with satisfaction. This sentiment concerns not only the financial results of BNG Bank and the way in which the bank shapes its mission, but also the way in which the Supervisory Board has been able to fulfil its various roles. The bank started the year with a new CEO: Gita Salden. The Supervisory Board held good substantive discussions with her and the other two Executive Board members about the content of the strategy as well as the results of a strategic risk analysis conducted. In this way, the wish of the Supervisory Board to act more explicitly as sparring partner/sounding board of the Executive Board in discussions on strategic subjects and to challenge the Executive Board at an early stage of strategy-making has been fulfilled. Topics such as the bank's existing and desired culture and HR strategy were also placed on the Supervisory Board's agenda. Much attention has again been paid to the conditions and requirements arising from external supervision. The permanent education of the Supervisory Board has taken the form of meetings with external speakers and in-depth sessions ('deep dives') with bank specialists. In 2018, the extended range of tasks on the part of the HR Committee led to a broader and improved assessment of the performance by the individual members of the Executive Board as well as to increased attention and involvement of the Supervisory Board in subjects such as strategic personnel planning, mobility or sustainable employment. This approach has strengthened the role of the Supervisory Board as an employer towards the Executive Board.

The Supervisory Board wishes to thank the Executive Board and all employees of BNG Bank for the contribution that they made in 2018 to the realisation of the bank's mission and objectives.

On behalf of the Supervisory Board,

Marjanne Sint
Chair

The Hague, 15 March 2019

5.2 Composition of the Supervisory Board and Committees

5.2.1 Composition of the Supervisory Board

The composition of the Supervisory Board in 2018 is shown in the following table. In accordance with the Articles of Association and the Corporate Governance Code, Supervisory Board members are eligible for reappointment for a period of four years in the first General Meeting of Shareholders to be held after a period of four years has elapsed since the first appointment. Supervisory Board members may then be reappointed for a two-year term of office, which may be extended for a maximum period of two years thereafter.

NAME	SEX	DATE OF BIRTH	NATIONALITY	DATE OF INITIAL APPOINTMENT	END OF FIRST PERIOD	END OF SECOND PERIOD
Kees Beuving	M	1951	NL	24/04/2014		2022
Lucas Bolsius (until 19/04/2018)	M	1958	NL	24/04/2014	2018	
Theo Bovens	M	1959	NL	23/04/2012		2019
Johan Conijn	M	1950	NL	01/01/2016	2020	
Marlies van Elst (from 19/04/2018)	F	1966	NL	19/04/2018	2022	
Jantine Kriens	F	1954	NL	24/04/2014		2022
Jan Nooitgedagt	M	1953	NL	23/04/2012		2019
Jan van Rutte	M	1950	NL	23/11/2015	2020	
Marjanne Sint	F	1949	NL	20/08/2012		2021

The vacancy created in the Supervisory Board in 2017 as a result of Petri Hofsté having stepped down has been filled by Marlies van Elst. She was appointed as Supervisory Board member by the General Meeting of Shareholders on 19 April 2018. Kees Beuving's and Jantine Kriens's first terms of office ended during the General Meeting of Shareholders on 19 April 2018. Both were reappointed by the General Meeting of Shareholders. Lucas Bolsius has indicated his willingness to assist in the desired reduction of the size of the Supervisory Board and for that reason does not wish to be considered for reappointment. He stepped down at the end of the General Meeting of Shareholders on 19 April 2018.

In 2018, Supervisory Board members Jan Nooitgedagt and Theo Bovens indicated on their own initiative that they intend to step down from the Supervisory Board at the end of the General Meeting of Shareholders to be held on 18 April 2019 on account of other activities and obligations. As a result, both Supervisory Board members will leave one year before the end of their second term of office. The HR Committee discussed the filling of vacancies during its meetings in the spring of 2018, taking into account the desired reduction of the size and the desired composition of the Supervisory Board. Moreover, the HR Committee included in its deliberations the succession plan, which sets out the expertise, experience and diversity required within the Supervisory Board. The desired reduction of the size of the Supervisory Board will be achieved by not filling the vacancy left by Theo Bovens. However, the HR Committee concluded that anchoring specific expertise pertaining to finance and audits as well as experience in relation to financial services within the Supervisory Board and the Audit Committee following Jan Nooitgedagt's departure is desirable. For this reason, the decision was made to fill the vacancy left by him. As a result, sound supervision of the topics mentioned will remain possible and sufficient Supervisory Board members with the desired expertise will remain available to sit on the Audit Committee and the Risk Committee. The presence of Huub Arendse signals the Supervisory Board's success in finding a candidate who meets the requirements of the job profile. He will also take over the chairmanship of the Audit Committee from Jan Nooitgedagt. The appointment of Huub Arendse will be proposed to the General Meeting of Shareholders in April 2019.

5.2.2 Brief Curriculum Vitae of Supervisory Board members

All Supervisory Board members have ample knowledge of and experience with the relevant business units of BNG Bank, the markets within which the bank operates and the specific characteristics of public stakeholders. The collective knowledge of the Supervisory Board is described in Supervisory Board's succession plan and in its job profile. The current or most recent principal position held by each member of the Supervisory Board is listed below. Additional positions held by the Supervisory Board members are only shown insofar as they are additional positions whose number is subject to limitation under the CRD IV regulations. A register containing all the additional positions held by the Supervisory Board members and more detailed CVs of the Supervisory Board members are published on BNG Bank's website. All the Supervisory Board members are independent within the meaning of the best-practice provisions of the Corporate Governance Code.

Kees Beuving

Kees Beuving was formerly Executive Board Chair of Friesland Bank. He is also Chair of the Supervisory Board of BPF BouwInvest.

Theo Bovens

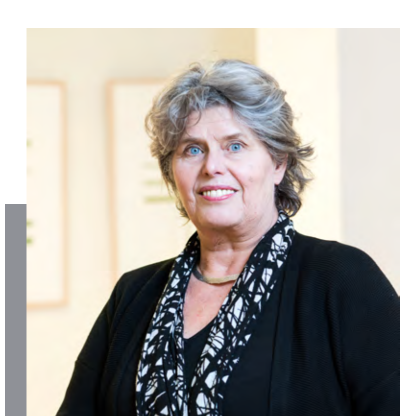
Theo Bovens is King's Commissioner (Governor) for the Province of Limburg.

Johan Conijn

Johan Conijn is Director of Real Estate Management at Ortec Finance. He serves as a member of the Investment Committee of Amvest Residential Core Fund.

Marlies van Elst

Marlies van Elst was COO of ING Bank in Belgium and Poland, as well as member of the Operations & IT Management Team of ING Group.



Jantine Kriens

Jantine Kriens is Chair of the VNG Executive Board.

Jan Nooitgedagt, Vice-Chair
Jan Nooitgedagt was formerly Chief Financial Officer and Executive Board member of Aegon. He is Chair of the TMG Supervisory Board, Chair of the Post NL Supervisory Board and a Supervisory Board member of Rabobank.

Jan van Rutte
Jan van Rutte was formerly Executive Board Chair at Fortis Bank Nederland and CFO in the Executive Board of ABN AMRO Groep. He serves as Chair of the Supervisory Board of Volksbank and as a member of the Supervisory Board of ORMIT and PGGM.

Marjanne Sint, Chair of the Supervisory Board
Marjanne Sint was formerly Chair of the Executive Board of Isala Clinics in Zwolle. She serves as Chair of the PGGM Supervisory Board and as a Supervisory Board member of NL Healthcare.

5.2.3 Composition of the Supervisory Board Committees and attendance

The four Supervisory Board Committees, the Audit Committee, the Risk Committee, the HR Committee and the Remuneration Committee, prepare decision-making by the Supervisory Board. The section entitled 'Activities of Supervisory Board Committees in 2018' discusses the activities of the Committees in more detail. The composition of each committee, including the meeting attendance record of the Supervisory Board members, is shown below. The average attendance rate in Supervisory Board meetings and meetings of the Supervisory Board committees in 2018 was 84% (2017: 95%).

SUPERVISORY BOARD MEMBER	SUPER-VISORY BOARD	% SUPER-VISORY BOARD	AUDIT COMMITTEE	RISK COMMITTEE	HR COMMITTEE	REMUNE-RATION COMMITTEE	% COMMIT-TEES	% TOTAL
Kees Beuving Remuneration Committee Chair	7/8	88%	4/4		4/6	1/1	82%	84%
Lucas Bolsius (until 19 April 2018)	3/3	100%						100%
Theo Bovens	5/8	63%						63%
Johan Conijn Risk Committee Chair	8/8	100%		5/5			100%	100%
Marlies van Elst (from 19 April 2018)	5/6	83%		3/3			100%	89%
Jantine Kriens	6/8	75%			3/6	0/1	43%	60%
Jan Nooitgedagt, Vice-Chair of the Supervisory Board, Audit Committee Chair	5/8	63%	4/4	4/5			89%	76%
Jan van Rutte	8/8	100%	4/4				100%	100%
Marjanne Sint, Chair of the Supervisory Board, HR Committee Chair	7/8	88%		5/5	6/6	1/1	100%	95%
Average attendance	84%	84%	100%	94%	72%	67%	86%	84%

5.3 The Supervisory Board in 2018

5.3.1 Meetings and subjects discussed

The Supervisory Board monitors the policy of the Executive Board, the way in which the latter implements the strategy and the general course of affairs in the company. To this end, the Supervisory Board focuses on the effectiveness of the internal risk management and control systems as well as the integrity and quality of the financial reporting. Depending on the subject under discussion, the Supervisory Board plays a role as sparring partner, a supervisory role or an employer role. The Supervisory Board held seven regular meetings in 2018. An additional Supervisory Board meeting was held to discuss the advice of the HR Committee on the filling of the Supervisory Board vacancy. The regular meetings of the Supervisory Board are also attended by Executive Board members and, when invited, the external auditor. A private session, which is only attended by members of the Supervisory Board, is held prior to each Supervisory Board meeting. In the Supervisory Board meetings, a written and oral report is presented of the Committee meetings that are held one week prior to the regular meetings of the Supervisory Board. Meeting documents of the Committees that are of relevance to the Supervisory Board are also listed on the agenda of the Supervisory Board meetings. Specific matters falling within the scope of responsibility of a Committee are discussed in greater depth in that Committee. Where the approval of the Supervisory Board is required, the Committee concerned gives advice to the Supervisory Board.

The Supervisory Board fully endorses BNG Bank's aim to act as a committed partner for a more sustainable Netherlands by supporting government policy and the public sector in achieving social objectives. In 2018, the strategy, the execution and the progress in its implementation as well as the associated main risks were discussed on a regular basis by the Supervisory Board. The development of a product new to BNG Bank was an important subject of discussion in the Supervisory Board in 2018. Intensive discussions between the Supervisory Board and the Executive Board about the extent to which the initiative fits in with BNG Bank's strategy as well as the risks associated with the strategy resulted in the Supervisory Board asking the Executive Board to reassess the business case. After careful consideration of the associated risks, among other things, the Executive Board decided to halt the initiative. Another important theme for the Supervisory Board in 2018 was the discussion of the HR strategy and strategic personnel planning. The Supervisory Board also devoted attention to the bank's corporate culture in 2018. Within this context, the experiences of Gita Salden in her first six months as Chair of the Executive Board were discussed. Matters coming to light as a result of external supervision, the self-evaluation results and the progress of several key projects were discussed as well.

5.3.2 Permanent education and 'deep dives'

Supervisory Board and Executive Board members complete a permanent education (PE) programme each year. The programme structure was identical to that in previous years. Two PE sessions were organised in 2018 and were attended by the members of the Supervisory Board, members of the Executive Board and directors of BNG Bank. PE sessions with external guest speakers were organised around the theme of 'Compliance' as provided by the Dutch Compliance Institute and the 'Making Public Real Estate More Sustainable Challenge', with a contribution from the chair of the 'built environment' sector platform Diederik Samsom, one of the sector platforms that worked on the Climate Agreement.

In addition to the PE sessions, four so-called 'deep dive' sessions were organised for the Audit Committee and the Risk Committee, which were also attended by other members of the Supervisory Board and the members of the Executive Board. 'Deep dives' covering the themes of IFRS9, Brexit, MiFID II and MiFIR, and the credit management process were organised in 2018. The deep dives provided the Supervisory Board with insight into the manner in which BNG Bank had prepared for these themes and the way in which it dealt with the associated risks.

5.3.3 Evaluation of the Supervisory Board and the Executive Board

In March 2018, the Supervisory Board discussed the outcome of the annual evaluation of the Board. The evaluation was performed internally. It consisted of a survey and telephone interviews conducted by the vice-chair with each Supervisory Board member. The main finding from the evaluation is the importance of ensuring that strategic issues receive sufficient attention. In the opinion of the Supervisory Board, it is also imperative that BNG Bank's contribution to social issues is an explicit topic of discussion between the Executive and Supervisory Board. The overall picture which emerged from the evaluation is positive, though, and provides encouragement for the Supervisory Board and Executive Board to continue their present approach. An open and constructive atmosphere characterises the Supervisory Board, where each member takes part in discussions and feels free to contribute ideas for tackling the challenges with which BNG Bank is faced. There is open dialogue, transparency and constructive cooperation within the Supervisory Board as well as between the Supervisory Board and the Executive Board.

In 2018, following preparatory work carried out by the HR Committee and discussion in the Supervisory Board, the evaluation of the Executive Board took place. The Supervisory Board has decided to evaluate all members of the Executive Board on the basis of several objectives for the Executive Board as a collective body and on a number of individual objectives with effect from 2018. In the opinion of the Supervisory Board, the evaluation of the Executive Board resulted in a positive outcome.

5.3.4 Contacts with stakeholders

The Supervisory Board maintains contacts with other stakeholders including the Works Council, shareholders, the external regulator, the external auditor and management.

There is **open dialogue**, **transparency** and **constructive cooperation** within the **Supervisory Board** as well as between the **Supervisory Board** and the **Executive Board**.

Members of the Supervisory Board attended three consultative meetings with the Works Council in 2018. The Supervisory Board and the Executive Board additionally meet with the Works Council once a year during a joint lunch highlighting certain issues. The Supervisory Board sees the contacts with the Works Council as constructive, and appreciates the open dialogue between the Supervisory Board, the Executive Board and the Works Council.

Among other things, the Supervisory Board's contacts with the shareholders are conducted via the General Meeting of Shareholders, in which the Supervisory Board renders account for its supervision. The annual General Meeting of Shareholders was held on 19 April 2018. Regular items on the agenda included the approval of the financial statements, the approval of the proposed dividend, the grant of discharge to each of the Executive Board and Supervisory Board members for their duties during the financial year, and the appointment of Marlies van Elst as Supervisory Board member as well as the reappointment of Kees Beuving and Jantine Kriens as Supervisory Board members. All the items on the agenda requiring approval were approved by the General Meeting of Shareholders. Discussions were also held between the Ministry of Finance, BNG Bank's primary shareholder, and the Chair of the Supervisory Board on a quarterly basis.

In addition to discussing supervisory matters in the Supervisory Board, the Chairs of the Supervisory Board, the Audit Committee and the Risk Committee each hold annual consultations with the external regulator. Members of the Supervisory Board also keep in touch with senior management. Senior management is involved in specific agenda items of the Supervisory Board and the Committees. Finally, the Supervisory Board maintains regular contacts with the external auditor as well as the Internal Audit Department (IAD) and oversees the performance of the external auditor.

In the Supervisory Board's opinion, no situations occurred in 2018 that involved conflicting interests on the part of Executive Board members, Supervisory Board members, shareholders and/or the external auditor of material significance to the company and/or the relevant Executive Board members, Supervisory Board members, shareholders and/or the external auditor.

5.4 Activities of Supervisory Board Committees in 2018

5.4.1 Working method

The four Supervisory Board committees support the Supervisory Board in monitoring the activities of the Executive Board, prepare decision-making by the Supervisory Board and advise it on a variety of subjects. Each Committee has its own regulations, updated in 2018, which can be found on the BNG Bank website. In principle, the Committees meet one week prior to a regular Supervisory Board meeting. The Committees report in writing to the Supervisory Board on the consultations and findings, while the Chair of the Committee concerned provides oral feedback. Meeting documents of the Committees that are of relevance to the Supervisory Board are listed on the agenda of the Supervisory Board meetings.

5.4.2 Audit Committee

The Audit Committee fulfils the role of the Supervisory Board in monitoring the activities of the Executive Board and prepares decision-making on financial reports, internal control systems, internal audit and the external auditor.

Next to Audit Committee members, its meetings are also attended by the Executive Board members, the Manager Internal Audit Department (IAD), the Manager Finance & Control and the external auditor. In addition, several other Supervisory Board members attended these meetings. The Audit Committee holds a private session with the external auditor and the Manager IAD prior to every regular meeting of the Audit Committee. The Chair of the Audit Committee consults with the Manager IAD twice a year.

The Audit Committee met four times in 2018. The Committee was informed about all quarterly reports with key figures, developments and outlook in relation to clients, profitability, solvency, capital, liquidity and funding. In response, the Committee asked the Executive Board questions about the development of turnover and the portfolio, about the scope offered by the realised return for the bank to serve its customers even better and about the costs. Important topics of discussion were also the 2017 financial statements and the annual report. In response, the Audit Committee discussed the quality of the results. The Audit Committee gave the Supervisory Board a positive recommendation on the Executive Board's proposal to increase the dividend payment over 2017 to 37.5%. In the external auditor's report, the Audit Committee received an explanation of the 'key audit matters', namely the valuation of financial instruments, special write-downs on loans and receivables, the hedge accounting system used by BNG Bank and the expected impact of IFRS 9. The Audit Committee agrees with the findings of the auditor. A point of discussion following the 2017 management letter of the Internal Audit Department was the lead time of the follow-up needed to implement the recommendations of IAD reports. From the discussion of the 2018 interim report and the findings of the external auditor, the Audit Committee concluded that the earlier recommendations of the auditor have been implemented. One outstanding point was the validation of the internal rating models used by the bank. The intended approach to this matter has been discussed with the Executive Board.

In addition to the regular subjects mentioned above, the Audit Committee focused attention on BNG Bank's current fiscal policy and its written recording in 2018. The Audit Committee noted that the bank does not actively participate in tax evasion schemes.

5.4.3 Risk Committee

The Risk Committee supports the Supervisory Board in monitoring the activities of the Executive Board in risk-related matters such as risk policy and risk management, compliance and the risk analysis of the remuneration policy, and prepares the Supervisory Board's decision-making on these matters.

Next to Risk Committee members, the Risk Committee meetings are attended by the Executive Board members, the Manager Internal Audit Department (IAD), the Manager Risk Management and the Compliance Officer, when invited. The Chair of the Risk Committee consults with the Manager Risk Management twice a year and with the Compliance Officer once a year.

The Risk Committee met five times during the year under review. At regular intervals, the Risk Committee discusses the effectiveness of the structure and functioning of the internal risk management and control systems as well as the material controls aimed at controlling strategic, operational, compliance and reporting risks. The Committee receives a quarterly Risk Report, in which the Risk Management department reports on the monitoring of the Risk Appetite approved by the Supervisory Board. The reports discuss the development of the bank's credit, market, liquidity and operational risks. They provide the Risk Committee with an accurate picture of the results of risk management at BNG Bank.

The Risk Committee also prepared the annual adoption of the Risk Appetite Statement (RAS) by the Supervisory Board. The Committee asked the Executive Board whether the RAS takes sufficient account of strategic risks that the bank can influence. Risk Management was also asked to make the role and responsibilities of the Supervisory Board with regard to the RAS explicit. Each year, the Risk Committee also discusses the result of the Supervisory Review and Evaluation Process (SREP). This process includes the assessment of risks in relation to capital (ICAAP) and liquidity (ILAAP). The documents drawn up in this context inform the establishment of a capital requirement by the regulator. The Risk Committee questioned the Executive Board about the way in which the bank had implemented previous recommendations of the regulator and about its level of ambition with regard to meeting outstanding issues. The Risk Committee gave the Supervisory Board a positive recommendation on the documents discussed.

The 2017 Compliance Report and the 2019 Compliance Annual Plan have been explained, in which context it has been discussed that a broader scope of the compliance function is being prepared and should take shape in 2019. Another recurring topic of discussion in the

Risk Committee meetings were letters of the regulator on risk-related topics as well as on-site and thematic inspections, including findings and recommendations as well as the intended follow-up that the bank intends to realise.

In 2018, the bank performed a strategic risk analysis under external supervision, resulting in a shared picture of the bank's main strategic risks and the desired actions to reduce them. The strategic risk analysis was discussed in detail with the Risk Committee. The Committee drew attention to the customer perspective. Other subjects on which the Risk Committee advised the Supervisory Board were the 2019 Recovery Plan, the risks associated with the intended introduction of a new product for BNG Bank, the policy on the governance and validation of internally used models, the implementation of laws and regulations (GDPR, EBA guidelines on internal governance), and the implementation at BNG Bank of the so-called 'three lines of defence' model for risk management.

5.4.4 HR Committee

The duties of the HR Committee include the recruitment and selection of Supervisory Board and the Executive Board members, preparatory work for the appointment or reappointment of Supervisory Board members, periodic evaluation of the performance by the Supervisory Board and the Executive Board as a whole, and assessment of the performance of individual Supervisory Board members and the members of the Executive Board. In this regard, the HR Committee prepares s decision-making by the Supervisory Board and thus supports the latter in its role as an employer. Next to HR Committee members, its meetings are also attended by the Executive Board members and the Manager Human Resources.

In 2017, the Supervisory Board concluded that governance developments require a stronger employer role for the Supervisory Board, which goes beyond the selection and appointment of Executive and Supervisory Board members. During the year under review, the HR Committee made an effort to achieve the desired reinforcement by placing items on the Supervisory Board agenda that had not been regularly discussed by the Supervisory Board before. The Committee drew attention to the bank's culture. It also indicated that it would like to discuss the findings of the internally conducted full management review, key figures and key positions, as well as the way in which to ensure continuity in this area. The aim is to improve the Supervisory Board's monitoring of the second management tier as well as of succession planning.

The HR Committee met six times in 2018. An important point for discussion was the project initiated to strengthen the organisational culture. The bank's current culture was visualised by means of a culture assessment. Discussions were also held with a number of Supervisory Board members in this context. Improvement actions were formulated in four areas: innovation, performance orientation, cooperation and accountability. The project will continue in 2019. The HR strategy was also discussed in 2018. The HR strategy focuses on strategic personnel planning, remuneration policy, performance management, and mobility and sustainable employability. The HR Committee considers strategic personnel planning to be the most important of these topics. The outcome of the full management review carried out in the year under review will be discussed with the Committee in 2019. The Committee also asked for vitality and innovation to be explicitly mentioned as themes in the HR strategy. The HR Committee also discussed with the Executive Board possible

Key Performance Indicators to measure the success of the HR strategy. The diversity policy drawn up for the Supervisory Board and the bank's senior management was discussed, as well as the question of which diversity standards are relevant for BNG Bank in the long term. The HR Committee also prepared the implementation of the 2018 Permanent Education Programme.

In 2018, the nomination was prepared to fill the vacancy that will be created by Jan Nooitgedagt's departure on 18 April 2019. The services of a recruitment and selection agency were used. The HR Committee's own activities were mainly concerned with drawing up a shortlist of candidates and conducting interviews with potential candidates. In filling the position, the HR Committee and the Supervisory Board have strived for an adequate and balanced composition of the Supervisory Board, in consultation with the Works Council. The framework for this procedure was formed by the succession plan drawn up and the updated job profile of the Supervisory Board.

In 2018, the HR Committee prepared decision-making by the Supervisory Board on a portfolio reshuffle within the Executive Board, which provides for the various roles of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO). His motivation to be eligible for reappointment effective 1 May 2019 as a member of the Executive Board for a second term of four years was discussed with Olivier Labe. He now serves as Chief Financial Officer (CFO). The Supervisory Board has decided to reappoint him in accordance with the advice of the HR Committee. On the proposal of the HR Committee, the assessment of the individual performance of the Executive Board members will for the first time be based on a 360-degree reflection carried out at the end of 2018. The reason for this approach is the abolition of performance-related variable remuneration as well as the desire to include development and competences in the assessment.

5.4.5 Remuneration Committee

The Remuneration Committee is responsible for preparing the decisions by the Supervisory Board on the remuneration of the Supervisory Board, the Executive Board and senior management, including decisions that have consequences for the risks and risk management of the company. As with the work of the HR Committee, this responsibility primarily concerns the employer role of the Supervisory Board. Next to members of the Remuneration Committee, its meetings are also attended by the Executive Board members.

The remuneration policy for the Executive Board was adopted by the shareholders in 2016 and remained unchanged in 2018. There were no changes in the composition of the Executive Board during the year under review either. Against this background, the Remuneration Committee only had to meet once in 2018. The Committee discussed the implementation of the remuneration policy, both for the Executive Board and for the employees. This implementation is done afterwards, over the previous calendar year. Special attention was paid to the remuneration of employees who can materially influence the bank's risk profile, the so-called 'Identified Staff'. The Committee was given access to the variable remuneration of all Identified Staff employees and to all bonuses paid – occasionally to individual employees. 2017 was the last year of performance-related variable remuneration for part of the Executive Board.

The Remuneration Committee determined the degree to which the 2017 targets had been met by the Executive Board and advised the Supervisory Board on the award percentage. The Remuneration Committee endorses the opinion of Risk Management that there were no reasons not to award the 2017 remuneration on the basis of a review of the Risk Appetite. In the 2017 Remuneration Report 2017, which was prepared by the Remuneration Committee, the Supervisory Board reports on the remuneration policy of the Executive Board and the employees as well as on the implementation of the remuneration scheme for the Supervisory Board.

Making the Rotterdam region a better place to live

New motorway will reduce congestion in Rotterdam

In the summer of 2018, De Groene Boog consortium signed the financing agreement for the construction project of the A16 Rotterdam motorway.

De Groene Boog consortium comprises Besix, Dura Vermeer, Van Oord, John Laing, Rebel and TBI (Mobilis, CroonWolter&Dros). BNG Bank is one of the lenders as well as the loans and collateral agent for the project. The project includes the designing, building, financing and long-term maintenance of 11 km of motorway (A16) in Rotterdam. This road will be open to traffic by the end of 2023. The total project costs amount to approximately € 895 million and will be borne by 16 different European lenders. BNG Bank's share of the finance amounts to some € 67 million.

Noise barriers, embankments, cycle tracks and footpaths

There are traffic jams on the A13 at Overschie as well as on the A20 between Kleinpolderplein and Terbregseplein almost every day. In order to make the Rotterdam region more accessible and a better place to live, the Ministry of Infrastructure and Water Management is building a new motorway: the A16 Rotterdam. The road will be located on the north-eastern fringes of Rotterdam. This road runs through the woods of Lage Bergse Bos, where a land tunnel will be constructed partly below ground level. To prevent traffic noise, the A16 will use ultra sound-absorbing asphalt. There will also be noise barriers and embankments. As a result, the road will have minimum impact on its surroundings and will be energy-neutral for 20 years. Adjacent areas such as Terbregseveld, Vlinderstrik and Lage Bergse Bos will be redeveloped as well as linked by cycle tracks and footpaths.

Financial statements

6.1 Consolidated financial statements

Consolidated balance sheet

Amounts in millions of euros

	NOTE	31/12/2018 (IFRS 9)	01/01/2018 (IFRS 9)	31/12/2017 (IAS 39)
Assets				
Cash and balances held with central banks	1	1,587	2,996	2,996
Amounts due from banks	2, 41	82	12	105
Cash collateral posted	3, 41	12,043	13,892	13,892
Financial assets at fair value through the income statement	4	1,606	1,628	2,006
Derivatives	5	8,390	8,978	8,982
Financial assets at fair value through other comprehensive income	6, 41	9,648	10,794	-
Financial assets available-for-sale	7		-	14,110
Interest-bearing securities at amortised cost	8, 41	7,406	5,134	-
Loans and advances	9, 41	85,034	84,640	86,008
Value adjustments on loans in portfolio hedge accounting	10	11,566	11,685	11,813
Associates and joint ventures	11	44	47	47
Property & equipment	12	17	17	17
Current tax assets	22	7	-	-
Other assets	13, 41	79	19	19
Assets classified as held for sale	14	-	30	30
Total assets		**137,509**	**139,872**	**140,025**
Liabilities				
Amounts due to banks	15	2,383	2,079	2,079
Cash collateral received	16	419	369	369
Financial liabilities at fair value through the income statement	17	762	944	944
Derivatives	18	19,223	21,870	21,870
Debt securities	19	103,722	104,323	104,127
Funds entrusted	20	5,800	5,421	5,417
Subordinated debts	21	32	31	31
Current tax liabilities	22	-	18	17
Deferred tax liabilities	22	99	83	173
Other liabilities	23	78	47	45
Total liabilities		**132,518**	**135,185**	**135,072**

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Consolidated balance sheet

Amounts in millions of euros

	NOTE	31/12/2018 (IFRS 9)	01/01/2018 (IFRS 9)	31/12/2017 (IAS 39)
Equity				
Share capital		139	139	139
Share premium reserve		6	6	6
Other reserves		3,410	3,570	3,221
Revaluation reserve		125	189	259
Cash flow hedge reserve		10	19	193
Own credit adjustment		9	9	9
Cost of hedging reserve		222	22	–
Net profit		337	–	393
Equity attributable to shareholders	24	**4,258**	**3,954**	**4,220**
Hybrid capital	24	733	733	733
Total equity	24	**4,991**	**4,687**	**4,953**
Total liabilities and equity		**137,509**	**139,872**	**140,025**

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

Consolidated income statement

Amounts in millions of euros

	NOTE		2018		2017
– Calculated using the effective interest method		5,154		5,406	
– Other interest revenue		566		499	
Total interest revenue		5,720		5,905	
– Interest expenses calculated using the effective interest method		5,179		5,317	
– Other interest expenses		107		153	
Total interest expenses		5,286		5,470	
Interest result	25		434		435
– Commission income		30		26	
– Commission expenses		2		3	
Commission result	26		28		23
Result on financial transactions	27		112		181
Results from associates and joint ventures	28		4		2
Result from sales of assets held for sale	29		0		–
Other results	30		2		2
Total income			**580**		**643**
Staff costs	31		40		44
Other administrative expenses	32		33		26
Depreciation	33		3		2
Total operating expenses			**76**		**72**
Net impairment losses on financial assets	34		-2		-7
Net impairment losses on associates and joint ventures	35		4		-3
Contribution to resolution fund	36		12		9
Bank Levy	36		31		36
Total other expenses			**45**		**35**
Profit before tax			**459**		**536**
Income tax expense	22		122		143
Net profit			**337**		**393**
– of which attributable to the holders of hybrid capital			19		18
– of which attributable to shareholders			318		375

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

Consolidated statement of comprehensive income

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

			2018			2017
Net profit			**337**			**393**
Recyclable results recognised directly in equity						
– Changes in cash flow hedge reserve:						
– Unrealised value changes	-9			232		
– Realised value changes transferred to the income statement	0			-42		
			-9		190	
– Changes in cost of hedging reserve						
– Unrealised value changes	195			–		
– Realised value changes transferred to the income statement	5			–		
		200			–	
– Changes in the revaluation reserve for financial assets at fair value through other comprehensive income						
– Unrealised value changes	-36			–		
– Realised value changes transferred to the income statement	-28			–		
– Impairments through the income statement	0			–		
– Impairments reversed through the income statement	0			–		
		-64			–	
– Changes in the revaluation reserve for financial assets available-for-sale						
– Unrealised value changes	–			55		
– Realised value changes transferred to the income statement	–			-47		
					8	
Total recyclable results		**127**			**198**	
Non-recyclable results recognised directly in equity:						
– Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL		0			-15	
– Movement in actuarial results		0			0	
Total non-recyclable results		**0**			**-15**	
Results recognised directly in equity			**127**			**183**
Total			**464**			**576**
– of which attributable to the holders of hybrid capital			19			18
– of which attributable to shareholders			445			558

Consolidated cash flow statement

Amounts in millions of euros

	2018	2017
Cash flow from operating activities		
Profit before tax	459	536
Adjusted for:		
– Depreciation	3	2
– Impairments	2	–10
– Unrealised results through the income statement	–78	–129
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	3	521
– Changes in Cash collateral posted and received	1,908	–3,736
– Changes in repos and reverse repos	–1	–
– Changes in Loans and advances	–181	1,191
– Changes in Funds entrusted	283	–1,748
– Changes in Derivatives	1,323	–843
– Corporate income tax paid	–140	–157
– Other changes from operating activities	–326	–216
Net cash flow from operating activities	**3,255**	**–4,589**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
– Financial assets available-for-sale	–	–3,560
– Financial assets at fair value through other comprehensive income	–162	–
– Interest-bearing securities at amortised cost	–2,796	–
– Investments in associates and joint ventures	–	–2
– Property and equipment	–3	–3
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	23	287
– Financial assets available-for-sale	–	4,980
– Financial assets at fair value through other comprehensive income	1,085	–
– Interest-bearing securities at amortised cost	503	–
– Assets held for sale	29	–
– Investments in associates and joint ventures	1	0
Net cash flow from investing activities	**–1,320**	**1,702**

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Consolidated cash flow statement

Amounts in millions of euros

	2018	2017
Cash flow from financing activities		
Amounts received on account of:		
– Financial liabilities at fair value through the income statement	–	11
– Debt securities	313,242	222,828
Amounts paid on account of:		
– Financial liabilities at fair value through the income statement	–185	–183
– Debt securities	–316,234	–223,076
– Subordinated debt	0	–1
– Dividend distribution on hybrid capital	–25	–23
– Dividend distribution to shareholders	–141	–91
Net cash flow from financing activities	**-3,343**	**-535**
Net change in cash and cash equivalents	**-1,408**	**-3,422**
Cash and cash equivalents as at 1 January	2,999	6,421
Cash and cash equivalents as at 31 December	**1,591**	**2,999**
Cash and cash equivalents as at 31 December:		
– Cash and balances held with central banks	1,587	2,996
– Cash equivalents in the Amount due from banks item	4	3
– Cash equivalents in the Amount due to banks item	0	0
	1,591	**2,999**
Notes to cash flow from operating activities		
Interest revenue received	5,585	5,735
Interest expenses paid	–5,243	–5,431
	342	**304**

Consolidated statement of changes in equity

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

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	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 01/01/2017	**139**	**6**	**251**	**3**	**24**		**2,961**	**369**	**3,753**	**733**	**4,486**
Total comprehensive income			8	190	–15			393	**576**		**576**
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 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**
Appropriation from previous year's profit							393	–393			
Balance as at 01/01/2018	**139**	**6**	**189**	**19**	**9**	**22**	**3,570**	**0**	**3,954**	**733**	**4,687**
Total comprehensive income			–64	–9	0	200		337	**464**		**464**
Dividend distribution to the bank's shareholders							–141		**-141**		**-141**
Dividend distribution to holders of hybrid capital							–19		**-19**		**-19**
Balance as at 31/12/2018	**139**	**6**	**125**	**10**	**9**	**222**	**3,410**	**337**	**4,258**	**733**	**4,991**

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

Accounting principles for the consolidated financial statements

General company information

The consolidated financial statements were prepared and issued for publication by the Executive Board on 15 March 2019 and will be presented to the General Meeting of Shareholders for adoption on 18 April 2019. 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, The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

Applicable laws and regulations

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

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

The consolidated financial statements are prepared on the basis of the going-concern principle. Most balance sheet items are valued at amortised cost. The balance sheet items Financial assets at fair value through the income statement (FVPL), Financial assets at fair value through other comprehensive income (FVOCI), Derivatives and Financial liabilities at fair value through the income statement (FVPL) are recognised at fair value. The balance sheet item 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. For a detailed description, please refer to the accounting principles for the individual balance sheet items. All amounts in the consolidated financial statements are stated in millions of euros, unless stated otherwise. The euro is the functional and reporting currency used by 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.

Accounting principles for consolidation

Each year, BNG Bank prepares consolidated financial statements for the parent company and its subsidiaries. The financial statements of the parent company and its subsidiaries which are used to prepare the consolidated financial statements are drawn up at the same reporting date, and are based on uniform principles. All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated financial statements. The consolidated financial statements comprise all subsidiaries over which BNG Bank has control. The consolidation base subject to prudential supervision is identical to the consolidation base under International Financial Reporting Standards (IFRS). Appendix A contains a list of BNG Bank's consolidated subsidiaries. Control exists if BNG Bank is exposed as an investor to variable returns due to its involvement and is able to influence these returns by exercising power over the relevant activities of the investment. Group companies are consolidated in full from the date that control has been acquired until such time as control ceases to exist. In determining whether BNG Bank has control over investment funds in which it holds units or shares, the financial interests held by BNG Bank as a participant are taken into consideration.

Involvement in non-consolidated structured entities

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

Critical accounting estimates and judgements

Where necessary, the amounts disclosed in this report are based on management estimates and assumptions. The most important methods and estimates relate to the fair value measurement of financial instruments for which there is no active market (for a more detailed description, see the Other Notes, 'Fair value of Financial Instruments'). BNG Bank uses generally accepted valuation models to measure the fair value of these financial instruments. The results of these models are based on various assumptions, including the discount rate and the future expected cash flows. Differences in the assumptions may have an effect on the reported values. Other important methods and estimates relate to:

- the amortised cost of financial instruments;
- hedge accounting;
- impairments;
- deferred taxes; and
- the employee benefits provision.

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

Balance sheet netting

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

Foreign currency

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

Segmented information

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

Changes in accounting principles for and presentation of comparative figures

The adoption of IFRS 9 with regards to classification and measurement, hedge accounting and impairment has no impact on the 2017 comparative figures because IFRS 9 does not require restating of comparative figures. However, IFRS 9 has 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 has 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 revenue and the interest expenses are divided into separate line items on the face of the income statement, i.e. 'Interest revenue (or expenses) using the effective interest method' and 'Other interest revenue (or expenses)'. A detailed breakdown of the interest result is provided in Note 25. The comparative figures for the 2017 interest result have been changed as well. BNG Bank has also implemented changes in the presentation of the balance sheet regarding cash collateral positions. In the 2018 Annual Report, there are separate balance sheet items for Cash collateral posted (assets) and Cash collateral received (liabilities). In the 2017 Annual Report, cash collateral posted was recorded in the item Amounts due from banks 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 as at 31 December 2017.

	31/12/2017 2017 ANNUAL REPORT	CHANGE	31/12/2017 2018 ANNUAL 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

Applied accounting standards adopted by the EU effective on or after 1 January 2018

BNG Bank has applied the mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2018, to its 2018 financial statements.

- IFRS 9 Financial Instruments: 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 as of 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 as of 1 January 2018. The bank has examined which types of commission received meet this new standard. The standard has no impact on BNG Bank's result and equity.
- Clarifications to IFRS 15 Revenue from Contracts with Customers: these clarifications to IFRS 15 are effective as of 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 as of 1 January 2018. The EU 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 as of 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 is effective as of 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 as of 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 endorsed IFRIC Interpretation 22 on 3 April 2018. BNG Bank complies with this interpretation.

Unapplied accounting standards adopted by the EU effective on or after 1 January 2018

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

- 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 a few 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: These amendments clarify 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.
- 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 endorsed this interpretation on 24 October 2018. The Bank has no uncertain tax treatments at this moment and therefore IFRIC Interpretation 23 has no impact.

Unapplied accounting standards not adopted by the EU

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

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; subsequently the consequences of IFRS 9 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. The adoption of IFRS 9 did not change all requirements of IAS 32 and IAS 39. The application of recognition or derecognition did not change and the separation of embedded derivatives remained applicable to liabilities.

IFRS 9 accounting principles applicable beginning 1 January 2018

Classification and measurement of financial instruments

BNG Bank classifies its financial assets into the following measurement categories:
- those to be measured at fair value (either through other comprehensive income, or through the income statement;
- those to be measured at amortised cost.

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

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

Financial assets measured at amortised cost

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

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

Financial assets measured at fair value through other comprehensive income

Investments in debt instruments are measured at fair value through other comprehensive income where they :
- have contractual terms that give rise to cash flows on specified dates, which represent solely payments of principal and interest (SPPI test) on the principal amount outstanding;
- 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. Interest revenue from these financial assets is included in Interest revenue using the effective interest method. Impairment losses or reversals, interest revenue, and foreign exchange gains and losses are also recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below under Impairment of financial assets.

Financial assets or liabilities at fair value through the income statement

Items at fair value through the income statement comprise:

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

Financial instruments held at fair value through the income statement are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise. Interest revenue or expenses from these financial assets and liabilities (except for derivatives involved in hedge accounting) are included in Other interest revenue or Other interest expenses. Interest revenue or expenses from derivatives involved in hedge accounting are included in Interest revenue using the effective interest method or Interest expenses using the effective interest method. Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the creditworthiness 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 the income statement. A financial asset may only be designated at fair value through the income statement if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. it eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

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

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

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

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

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

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

If the terms of a financial asset are modified, BNG Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. BNG Bank derecognises a financial liability when its terms are modified and the cash flows of the modified financial liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit and loss.

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

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

Stage 1: 12-month ECL

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

Stage 2: lifetime ECL – 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 which have had a significant increase in credit risk since initial recognition, but which are not considered credit-impaired. This mainly includes exposures with a credit rating that is not considered to be investment-grade and for which the credit rating dropped at least one 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 on an individual exposure level whether exposures are credit-impaired. This assessment is based on whether one or more events have occurred that have a detrimental impact on the estimated future cash flows of that asset. This includes, but is not limited to, exposures with payment arrears exceeding 90 days. In the event that BNG Bank determines that a counterparty is in default, all related financial assets are considered to be in Stage 3. For exposures that have become 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 , as well as forward-looking analysis. BNG Bank also makes use of the Low Credit Risk Exemption (LCRE) in order to avoid exposures to move to Stage 2 even when there is a significant increase in credit risk, as long as the total credit risk is still low. An exposure will migrate to a lower ECL stage as asset quality deteriorates. If asset quality improves up to a point that there is no longer any question of SICR since origination, the ECL allowance reverts from lifetime ECL to 12-month ECL. 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-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement. BNG Bank assesses whether the credit risk on an exposure has increased significantly on an individual basis.

Measurement of ECL

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

Hedge accounting as of 1 January 2018

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

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

Fair value hedge accounting

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

Micro hedge accounting

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

Portfolio hedge accounting

There are no implications for the portfolio fair value hedge accounting (or macro hedge accounting), as IAS 39 remains applicable (see Accounting policies applied until 31 December 2017).

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 the income statement. The amount recognised in the cash flow hedge reserve is reclassified to the income statement as a reclassification adjustment in the same period as the hedged cash flows affect the income statement. BNG Bank applies cash flow hedge accounting on floating foreign currency transactions and the credit spread of fixed foreign currency transactions. The balance sheet line items Funds entrusted and Debt securities are involved.

Foreign currency basis spread

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

Discontinuance of hedge accounting

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

IAS 39 accounting principles applicable prior to 1 January 2018

The group has applied IFRS 9 retrospectively, but it has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with BNG Bank's previous accounting policy.

Financial assets carried at amortised cost

For outstanding loans and receivables in the Amounts due from banks and Loans and advances items, which are carried at amortised cost, BNG Bank creates an incurred loss provision which is charged to the income statement. In determining impairments, a distinction is made between loans and receivables involving an objective indication of impairment on the one hand and loans and receivables for which there is no objective indication of impairment on the other.

In forming an incurred loss provision, BNG Bank first determines whether there are any indications of impairment of individual debts. For all items involving an objective indication of impairment, an estimate is made at individual counterparty level of the present value of the future cash flows. The assumptions applied in this context include (estimates of) the (forced-sale) value of collateral, payments still to be received, the timing of these payments and the discount rate. Uncertain future loss events are not taken into account.

Receivables for which no objective indication of impairment exists are included in the collective assessment of the so-called Incurred But Not Identified loss model (IBNI). This portfolio method considers credit exposures, including the off-balance exposures. Important parameters in calculating the IBNI are the EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default) and LEP (Loss Emergency Period of nine months). The determination of the provision according to the IBNI method seeks to align the outcome of the internal rating models with the associated probability of a loss.

Both the individual provision and the collective provision fall under the regulatory specific credit risk adjustments.
This concerns adjustments relating to:
- credit risk of an entire group of exposure; or
- credit risk of an individual exposure.

If a financial asset carried at amortised cost becomes permanently irrecoverable, it is charged to the incurred loss provision created, with any difference being charged or added to the Impairments item in the income statement.

Financial assets available-for-sale

Interest-bearing securities for which there is an active market at the trade date – insofar as they are not recognised in Financial assets at fair value through the income statement – are classified under the Financial assets available-for-sale item. This also applies to equity instruments, as long as the Bank has no significant influence. These assets are retained for an indefinite period and may be sold, if desired. They are measured at fair value and value movements are recognised in the revaluation reserve in equity. The fair value of equity instruments such as participating interests for which no market quotation is available is determined by means of valuation methods, such as the net present value method or the equity method, from which the shareholder value can be derived. If equity instruments are not quoted on an active market and the fair value cannot be reliably determined, valuation at cost will be allowed. If interest-bearing securities are involved in a fair value hedge accounting relationship, the effective portion of the hedge is accounted for in the result and not in equity. The interest result amortised on the basis of the effective interest method and any currency revaluations are recognised directly in the income statement. In the event that interest-bearing securities and participating interests are sold, the cumulative fair value movement is deducted from equity and recognised in the Result on financial transactions item of the income statement.

Financial assets and financial liabilities at fair value through the income statement

In the past, BNG Bank occasionally used the option to designate individual assets and liabilities such as loans and interest-bearing securities at fair value, with full result recognition through the income statement. Transactions are designated at fair value through the income statement if:

- the purpose is to exclude an accounting mismatch; or
- a portfolio is managed and evaluated on the basis of fair value; or
- they concern instruments with an embedded derivative that is not separated.

In principle, the fair value designation of transactions, which is irrevocable, takes place at the trade date. BNG Bank has no assets and liabilities held-for-trading in these balance sheet items.

Impairment of financial assets

BNG Bank recognises the changes in the incurred loss provision for financial assets in the balance sheet items Amounts due from banks and Loans and advances. Impairments of financial assets measured at fair value with value movements through equity are recorded in Financial assets available-for-sale. The amount of the impairment is the difference between the carrying amount and the present value based on expected future cash flows. At the balance sheet date, all financial assets are reviewed as to whether there are objective indicators that indicate impairment. A financial asset is subject to impairment if objective indications exist that one or more events after initial recognition had a reliably estimated negative effect on expected future cash flows from that asset. BNG Bank established objective indicators in the event of a major change in market conditions, for example in share prices and exchange rates, interest rates, degree of market liquidity, the creditworthiness of counterparties and the probability of default (in terms of amount and timeliness) of the cash flows to be received. Impairments concern two groups of financial assets of BNG Bank:

- financial assets carried at amortised cost; and
- financial assets carried at fair value with value movements through equity (revaluation reserve for financial assets available-for-sale).

Financial assets which were subject to impairment are reassessed at each balance sheet date. Impairment of an investment in a debt instruments, is reversed through the income statement (Impairments item) if it is possible to establish reliably that the negative effects of the indication for the impairment recognised earlier are mitigated. An impairment is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount which would have been determined if no impairment had been recognised. Impairment of an investment in an equity instrument in the Financial assets available-for-sale item cannot be reversed.

Hedge accounting

BNG Bank applies economic hedging in order to mitigate foreign exchange risks fully and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is monitored on a daily basis. Foreign exchange and interest rate risks are hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. Further information on the types of hedging can be found in the 'Hedging risks using derivatives' section of the Other Notes.

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. On the trade date of a derivative transaction, it is determined at inception whether and how this transaction will be involved in a hedge accounting relationship. Hedge accounting is only applied when the formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between the two and the objective of the hedge. Hedge documentation should demonstrate that the hedge is expected to be effective and the way in which effectiveness is determined. Effectiveness means that, during the reporting period, there are opposing risks between the hedging instrument and the hedged item, which are within the limits defined by IAS 39 (80% – 125%). It should furthermore be demonstrated that the hedge will remain effective for the remaining term. The net ineffective portion of the hedge relationship is recognised directly in the Result on financial transactions item of the income statement.

The hedge accounting relationship is discontinued when it no longer meets the conditions for hedge accounting, or when the hedged item or hedging instrument is sold or matures. The difference between the preceding balance sheet value and the amortised cost of the hedged item is amortised over the remaining period of the hedged item, to the extent that it is retained on the balance sheet. 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.

Fair value hedge accounting

BNG Bank applies two types of fair value hedge accounting: micro hedge accounting and portfolio hedge accounting. Micro hedge accounting is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks. In the case of micro hedge accounting, there is an apparent one-on-one relationship between the hedged item and the hedging instrument. BNG Bank applies micro hedge accounting to (a large part of) the financial liabilities classified under the Funds entrusted and Debt securities balance sheet items, as well as to large portions of the (highly) liquid assets in the Financial assets available-for-sale item. Portfolio hedge accounting concerns a group of transactions in euros that are hedged for interest rate risk using a portfolio of derivatives. BNG Bank applies portfolio hedge accounting to the majority of long-term fixed-interest loans (Loans and advances item) and a limited number of fixed-interest securities (Financial assets available-for-sale item). There is no relationship between individual hedged items and hedging instruments, but it is shown at the portfolio level that the derivatives involved offset the value changes in the related assets arising from interest rate movements. Due to the lack of a direct relationship between the assets and the derivatives used for hedging, the value adjustments of the hedged interest rate risk – unlike the micro hedge accounting situation – are recognised in the Value adjustments on loans in portfolio hedge accounting balance sheet item.

Cash flow hedge accounting

Cash flow hedge accounting is used to hedge possible variability in future cash flows due to exchange rate differences. BNG Bank applies cash flow hedge accounting to foreign-currency financial liabilities included in micro hedge accounting which are recognised primarily in the Funds entrusted and Debt securities items, as well as in (highly) liquid assets in foreign currency in the Financial assets available-for-sale item. The effective portion of changes in the fair value of hedging instruments, arising from changes in the foreign exchange rates, is not recognised in the income statement but in the cash flow hedge reserve in the equity.

Accounting principles under both IFRS 9 and IAS 39

Recognition and accounting of financial assets and liabilities

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

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

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

Derecognition of financial assets and liabilities

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

A financial liability is derecognised when the obligation specified in the contract has been discharged or cancelled or has expired. When selling or buying financial assets and liabilities, BNG Bank applies the First In, First Out (FIFO) principle. The difference between the amount settled and the carrying amount of the asset or liability is immediately and fully recognised in the income statement. If an existing financial asset or liability is contractually exchanged for another contract with the same counterparty on substantially the same terms, the new asset or liability is treated as a continuation of the existing asset or liability. No result is recognised in this case.

Transfer of financial assets

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

Recognition and accounting of derivative financial instruments

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

Separated derivatives embedded in financial liabilities

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

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

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

Non-separated derivatives embedded in financial liabilities

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

Value adjustments on loans in portfolio hedge accounting

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

Amounts due to banks, cash collateral received, debt securities, funds entrusted and subordinated debt

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

Fair value of financial instruments

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

Transition to IFRS 9

The purpose of this section is to disclose the changes following the adoption of IFRS 9 with regards to classification and 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 as adopted from 1 January 2018.

The transition rules of IFRS 9 require a retrospective application to prior periods without restating of comparative figures. Accordingly the initial adoption effect is reflected in the opening balance of shareholders' equity for the financial year 2018. Comparative periods in the notes to 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	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OWN CREDIT ADJUSTMENT	COST OF HEDGING RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS
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			–21				–11		–32
– from AFS to FVTPL			–10				10		0
– from reclassified AFS to AC			62				8		70
– 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**
Appropriation from previous year's profit							393	–393	
Opening balance under IFRS 9	**139**	**6**	**189**	**19**	**9**	**22**	**3,570**	**-**	**3,954**

Classification and measurement

Reconciliation of balance sheet positions from IAS 39 to IFRS 9	IAS 39	RECLASSI-FICATIONS	REMEASURE-MENTS	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 1/1/2018 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 and Advances (AC)		10	1	
Opening balance 1/1/2018 under IFRS 9				**137**
b. Designated as 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 1/1/2018 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 1/1/2018 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 1/1/2018 under IFRS 9				**-**

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Reconciliation of balance sheet positions from IAS 39 to IFRS 9	IAS 39	RECLASSI-FICATIONS	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 1/1/2018 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 1/1/2018 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 1/1/2018 under IFRS 9				**84,640**
Value adjustments on loans involved in portfolio hedge accounting				
Closing balance 31/12/2017 under IAS 39	**11,813**			
Remeasurement			–128	
Opening balance 1/1/2018 under IFRS 9				**11,685**
Total changes in financial assets	**123,024**	**-**	**-153**	**122,871**

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Reconciliation of balance sheet positions from IAS 39 to IFRS 9	IAS 39	RECLASSI-FICATIONS	REMEASURE-MENTS	IFRS 9
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 1/1/2018 under IFRS 9				**104,323**
Funds entrusted				
Closing balance 31/12/2017 under IAS 39	**5,417**			
Remeasurement Value adjustments of liabilities involved in micro hedge accounting			4	
Opening balance 1/1/2018 under IFRS 9				**5,421**
Current tax liabilities				
Closing balance 31/12/2017 under IAS 39	**17**			
Net changes in current taxes due to remeasurements			1	
Opening balance 1/1/2018 under IFRS 9				**18**
Deferred tax liabilities				
Closing balance 31/12/2017 under IAS 39	**173**			
Net changes in deferred taxes due to remeasurements			–90	
Opening balance 1/1/2018 under IFRS 9				**83**
Other liabilities				
Closing balance 31/12/2017 under IAS 39	**45**			
ECL provision for off-balance sheet commitments			2	
Opening balance 1/1/2018 under IFRS 9				**47**
Total changes in financial liabilities	**109,779**	**-**	**113**	**109,892**

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets as shown in the table above.

Reclassified bond portfolio

Under IAS 39, a part of the bank's AFS bond portfolio was reclassified in 2008 to amortised cost. These reclassified bonds were recorded in the line items Amounts due from banks (EUR 93 million) and Loans and advances (EUR 1,493 million), depending on whether the issuer was a bank or not. Under IFRS 9, these reclassified bonds were reclassified to be measured at either AC or FVOCI. Measurement at AC or FVOCI is conditional to the business model of the bonds concerned. High-liquid bonds which are part of the bank's liquidity portfolio fall within the Hold to Collect & Sell business model and are measured at FVOCI in the item Financial assets at fair value through OCI (EUR 123 million). The remainder of the bonds are part of the investment portfolio and fall within the Hold to Collect business model, which means that they are measured at AC under IFRS 9 and recorded in the item Interest-bearing securities at amortised cost (EUR 1,463 million). The difference between the fair value at reclassification date and the redemption value of the reclassified portfolio under IAS 39 was amortised over the remaining term of the individual contract. At year-end 2017 the difference between the reclassified amortised cost value and the amortised cost value if it had been measured at amortised cost since inception resulted in a remeasurement of EUR 58 million. A fair value hedge adjustment has been recognised for EUR 11 million for those bonds that are now measured at amortised cost and that are in a micro fair value hedge accounting relationship.

Financial assets previously designated at FVTPL

A portion of the financial assets designated as measured at FVTPL under IAS 39 (EUR 126 million) has been reclassified to mandatorily measured at FVTPL under IFRS 9. Apart from a small amount in equity instruments, this reclassification was made as a result of bonds failing the SPPI test. These instruments were previously designated at FVTPL in order to avoid an accounting mismatch. This is also true for the instruments that remain to be classified as designated at FVTPL under IFRS 9.

In addition to this, a portion of loans and bonds that were designated at FVTPL under IAS 39 have been reclassified to AC. These loans and bonds passed the SPPI test and the bank decided not to designate these instruments at FVTPL under IFRS 9, as there was no need to avoid an accounting mismatch. As a result, EUR 209 million in bonds was reclassified to the item Interest-bearing securities at amortised cost and EUR 180 million in loans was reclassified to the item Loans and advances.

Loans previously measured at AC but which fail the SPPI test

A small number of loans that were measured at AC and recorded in the item Loans and advances failed the SPPI test, which resulted in these loans to be mandatorily measured at FVTPL. This concerns the EUR 10 million movement from the item Loans and advances to the item Financial assets at FVTPL in the reclassification table.

AFS bond portfolio

The bonds (totalling EUR 14,110 million) that were classified as AFS under IAS 39 all passed the SPPI test. As a result, these instruments were reclassified under IFRS 9 to either measurement at FVOCI or at AC based on the outcome of the Business Model test. High-liquid bonds which are part of the bank's liquidity portfolio fall within the Hold to Collect & Sell business model and are measured at FVOCI in the item Financial assets at fair value through OCI (EUR 10,670 million). The remainder of the bonds are part of the investment portfolio and fall within the Hold to Collect business model, which means that they are measured at AC under IFRS 9 and recorded in the item Interest-bearing securities at amortised cost (EUR 3,440 million). A fair value hedge adjustment has been recognised for EUR 59 million for those bonds that are now measured at amortised cost and that are in a micro fair value hedge accounting relationship.

Reclassification from retired categories with no change in measurement
The categories Hold to Maturity (HTM) and Loans and Receivables have been discontinued under IFRS 9. Financial assets within these classifications were measured at AC under IAS 39. Insofar as these assets pass the SPPI test and are held within the Hold to Collect business model, they continue to be measured at AC under IFRS 9. This covers the financial assets in the table that continue to be included in the items Amounts due from banks (EUR 12 million) and Loans and advances (EUR 84,505 million).

Impairment

	LOAN LOSS ALLOWANCE UNDER IAS 39/ PROVISION UNDER IAS 37	RECLASSI-FICATIONS	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 align hedge accounting better with risk management practices. BNG Bank applies the new hedge accounting rules under IFRS 9 with the exception of 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 basis 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 impacts on equity caused by hedge accounting can be summarised by the release of the remaining amortisation amount of EUR 128 million that was recognised in the past for trades that were transferred from portfolio hedge accounting to micro hedge accounting. This reduces both the item value adjustments on loans involved in portfolio hedge accounting and the revaluation reserve with this amount. The application of IFRS 9 resulted in a Cost of hedging reserve of EUR 30 million (before taxes) and additional fair value hedge adjustments of EUR 196 million on debt securities issued and EUR 4 million on funds entrusted. The change from cash flow hedge accounting to fair value hedge accounting for fixed rate foreign currency bonds resulted in a decrease in the cash flow hedge reserve of EUR 60 million. The remaining differences are due to some remeasurements under IFRS 9 hedge accounting.

Other

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

Property and equipment
All property and equipment owned by the Bank is valued at cost less accumulated depreciation. Property relates to land, buildings and technical installations. Equipment relates to office machinery, inventory, furniture, hardware, software and artworks. The depreciation period is determined on the basis of the estimated useful life of the assets (see note 9 to the consolidated financial statements). The estimated useful life and residual value are reviewed annually. Depreciation is calculated on a straight-line basis and charged to the income statement. Land is not depreciated.

Assets and liabilities held for sale
Assets and liabilities are classified as held for sale if they meet all the conditions set out below:
- The relevant group of assets and liabilities must be available for immediate sale.
- The sales must be highly probable.
- Management is committed to executing the plan to sell.
- The asset must be currently marketed actively at a price which represents the fair value of the group of assets and liabilities.
- The intention to sell must lead to the actual sale of the asset within one year.

Assets and liabilities held for sale are disclosed separately in the balance sheet with separate explanatory notes. With the exception of a number of individual assets or (part or all of a) group of assets, assets and liabilities held for sale are measured at the lower of the carrying amount and the fair value, less the selling costs. The excluded assets, which include financial assets, are measured in line with their own measurement bases.

Impairment is recognised if the fair value less the selling costs is lower than the carrying amount, both initially and subsequently. Revaluation after the initial recognition of assets and liabilities held for sale is recognised as the result on continued activities (before tax) in the income statement.

Impairment of non-financial assets

The carrying amount of BNG Bank's non-financial assets (property and equipment, investments in associates and joint ventures), with the exception of deferred tax assets, is assessed twice a year in order to determine whether there are objective indications of impairment. To determine impairments, an estimate is made of the realisable value and individual assets are divided into groups at the lowest level at which future cash flows can be identified (cash flow generating units). BNG Bank has not recognised any goodwill. The realisable value of an asset or cash flow generating unit is equal to the higher of the value in use and the fair value minus selling costs. In determining the value in use, the present value of the estimated future cash flows is calculated using a discount rate before tax which reflects both the current market appraisals of the time value of money and the specific risks relating to the asset. Impairments recognised in respect of cash flow generating units are first offset against the carrying amount of any goodwill allocated to the units and subsequently offset pro rata against the carrying amount of the other assets of the unit (or group of units). Non-financial assets which were subject to impairment are reassessed at each balance sheet date. Impairment of a non-financial asset, with the exception of goodwill included in non-financial assets, is reversed through the income statement (Impairments item) if it is possible to establish reliably that the negative effects of the indication for the impairment recognised earlier are mitigated. An impairment is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount minus depreciation or amortisation, which would have been determined if no impairment had been recognised.

Employee pensions

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

Other employee benefits

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

Taxes

The nominal tax amount is calculated on the basis of the statutory nominal tax rates and the tax legislation in force. Tax rate adjustments relating to previous years, participation exemptions and non-deductible costs are also applied when determining the effective tax amount in the income statement. Deferred tax assets and deferred tax liabilities are both carried at nominal value. All deferred tax assets and liabilities are stated in the accounts of the parent company of the fiscal unit. Group companies that form part of the fiscal unit use the applicable nominal tax rate. Deferred tax assets and liabilities are recognised as temporary differences between the carrying amounts on the one hand and the tax bases of assets and liabilities on the other. The bank has registered deferred tax assets and liabilities for the actuarial results for the employee benefits provision, for the revaluation reserve for financial assets at fair value through other comprehensive income (until 31 December 2017 financial assets available-for-sale) and for the cash flow hedge reserve, which all directly change within equity. These deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods in which they are expected to be realised. Differences in deferred tax assets and liabilities resulting from a change in tax rates are recognised in the income statement. Deferred tax assets are recognised only to the extent to which taxable profits are expected to be available in the near future to compensate for these temporary differences. Tax assets and liabilities, both current and deferred separately, are netted if they concern the same tax authority and the same type of tax and if netting of these assets and liabilities is permitted by law.

Equity

The balance sheet is drawn up before profit appropriation. This means that the total net result for the financial year is presented in equity. The revaluation reserve for financial assets at fair value through other comprehensive income (until 31 December 2017 financial assets available-for-sale) and the cash flow hedge reserve are adjusted by recognising a deferred tax liability.

Hybrid capital

The privately issued hybrid capital comprises perpetual loans with an annual non-cumulative discretionary interest payment on the original principal amount. The mandatory depreciation of the original principal amount occurs in the event that the contractual trigger ratio has been reached. The depreciated amount is transferred to the Other reserves. Depreciation from the Other reserves is reversed at the moment that the trigger ratio is once again exceeded. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a dividend charged to the Other reserves. The dividend distribution is determined unchanged on the basis of the original principal amount. The distributed dividend is deductible for corporate income tax until 2019 due to a change in law in 2018. This perpetual capital instrument is classified as equity. BNG Bank has the unilateral contractual option of buying back the hybrid capital issued. The tranches issued in 2015 (a nominal amount of EUR 424 million) can be repurchased from May 2021 and subsequently in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased every year from May 2022.

Revaluation reserve

Only IFRS 9

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

Only IAS 39

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

Own credit adjustment

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

Cost of hedging reserve

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

Cash flow hedge reserve

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

Interest revenue and interest expenses

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

Commission income and commission expenses

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

Result on financial transactions

This item comprises unrealised market value changes in:

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

This item also includes sales and buy-out results for financial instruments measured at fair value. These realised results consist of the difference between the net proceeds of the sale and the carrying amount, including the release of value movements accumulated in the equity. Returns from the participating interests (equity instruments) measured at fair value are also recognised under this item. Finally, differences between the fair value and the transaction price of financial assets and liabilities measured at fair value on initial recognition are also included under this item. For fair value level 1 and 2 financial instruments, the difference is recognised directly in the income statement; for fair value level 3 financial instruments, it is amortised over the term of the financial instrument.

Results from associates and joint ventures

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

Result from sale of assets held for sale

Results are recognised under this item at the time of sale of the relevant asset held for sale. See under 'Assets and liabilities held for sale'.

Other results

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

Depreciation

Please refer to the Property and equipment section.

Contribution to resolution fund

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

Bank levy

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

Consolidated statement of comprehensive income

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

Consolidated cash flow statement

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

Notes to the consolidated financial statements

Amounts in millions of euros

Note 38 includes a breakdown of balance sheet values by remaining contractual maturity (due on demand and not due on demand).

1 Cash and balances held with central banks

	31/12/2018	31/12/2017
Cash on hand	0	0
Current account balances with central banks (due on demand)	1,587	2,996
Total	**1,587**	**2,996**

2 Amounts due from banks

The Amounts due from banks item includes all receivables from banks measured at amortised cost. In 2017 (IAS 39) this balance sheet item included interest-bearing securities issued by banks which were reclassified from available-for-sale to amortised cost upon the application of IFRS 9.

	31/12/2018	31/12/2017
Short-term loans and current account balances	4	3
Long-term lending	78	9
Interest-bearing securities reclassified from available-for-sale	–	93
Total	**82**	**105**

Note 41 provides an overview of the breakdown of financial assets subject to impairment into impairment stages.

3 Cash collateral posted

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

Note 41 provides an overview of the breakdown of financial assets subject to impairment into impairment stages.

4 Financial assets at fair value through the income statement

This item includes:
- Financial assets mandatorily measured at fair value through profit or loss (only under IFRS 9). This concerns financial assets that have failed to pass the SPPI test;
- Financial assets designated as measured at fair value through profit or loss.

	31/12/2018	31/12/2017
Mandatorily measured at FVTPL		
Loans and advances	136	–
Designated as measured at FVTPL		
Loans and advances	523	842
Interest-bearing securities	947	1,164
Total	**1,606**	**2,006**

The total redemption value of these loans and advances and interest bearing securities at year-end 2018 is EUR 1,114 million (2017: EUR 1,463 million). Note 27 explains the changes in fair value recognised through the income statement.

5 Derivatives

This balance sheet item includes the positive fair value of derivatives not settled-to-market. Note 27 explains the changes in fair value recognised through the income statement.

	31/12/2018	31/12/2017
Derivatives not involved in a hedge accounting relationship	289	273
Derivatives involved in a portfolio hedge accounting relationship	2,853	3,795
Derivatives involved in a micro hedge accounting relationship	5,248	4,914
Total	**8,390**	**8,982**

6 Financial assets at fair value through other comprehensive income

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

	31/12/2018
Governments	6,682
Supranational organisations	542
Credit institutions	2,341
Other financial corporations	26
Non-financial corporations	56
Total	**9,648**

Transfers without derecognition

At year-end 2018, BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

Note 41 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

7 Financial assets available-for-sale

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments.

	31/12/2017
Interest-bearing securities issued by:	
– Governments	7,597
– Supranational organisations	730
– Credit institutions	2,259
– Other financial corporations	2,545
– Non-financial corporations	979
Investments in participating interests	0
Total	**14,110**

Transfers without derecognition

At year-end 2017 BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

8 Interest-bearing securities at amortised cost

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

	31/12/2018
Governments	1,464
Supranational organisations	0
Credit institutions	21
Other financial corporations	4,951
Non-financial corporations	977
Allowance for expected credit losses	-7
Total	**7,406**

Note 41 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

9 Loans and advances

IFRS 9 (2018):

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

IAS 39 (2017):

The Loans and advances item includes short-term and long-term loans to clients measured at amortised cost, as well as current account debit balances held by clients. In addition, the balance sheet item holds interest-bearing securities (not issued by banks) for which there is no active market, including those reclassified from available-for-sale to amortised cost in 2008.

	31/12/2018	31/12/2017
Short-term loans and current account balances	4,331	4,620
Long-term lending	80,750	79,929
Interest-bearing securities	–	662
Reclassified available-for-sale transactions	–	831
	85,081	**86,042**
Allowance for expected credit losses (IFRS 9)	–47	–
Incurred loss provision (IAS 39)	–	–34
Total	**85,034**	**86,008**

Note 41 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

The EUR 34 million incurred loss provision (IAS 39) comprises EUR 20 million in individual provisions and EUR 14 million in collective provision (IBNI).

	2017
Movement in the incurred loss provision:	
Opening balance	–42
Additions during the financial year	-3
Release during the financial year	7
Withdrawals during the financial year	4
Closing balance	**-34**

10 Value adjustments on loans in portfolio hedge accounting

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

	2018	2017
Movements of value adjustments on loans in portfolio hedge accounting		
Opening balance	11,813	14,894
Elimination of IAS 39 reclassification of financial assets 'available for sale' to 'amortised cost'	-128	-
Movements in the unrealised portion in the financial year	846	-2,120
Amortisation in the financial year	-834	-860
Realisation from sales in the financial year	-131	-101
Closing balance	**11,566**	**11,813**

11 Investments in associates and joint ventures

	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	PARTICIPATING SHARE		BALANCE SHEET VALUE	
Associates				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
Subtotal			**3**	**3**
Joint ventures				
BNG Gebiedsontwikkeling BV, various immaterial participations	See Other Notes		41	44
Total			**44**	**47**

For summarised financial information on associates and joint ventures, please refer to Other notes to the consolidated financial statements.

12 Property and equipment

	2018	2017	2018	2017	2018	2017
	PROPERTY		EQUIPMENT		TOTAL	
Historical cost						
Value as at 1 January	49	49	19	17	68	66
Investments	0	0	3	2	3	2
Value as at 31 December	49	49	22	19	71	68
Depreciation						
Accumulated depreciation as at 1 January	37	36	14	13	51	49
Depreciation during the year	0	1	3	1	3	2
Accumulated depreciation as at 31 December	37	37	17	14	54	51
Total	**12**	**12**	**5**	**5**	**17**	**17**

Estimated useful life	
Buildings	33⅓ years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

13 Other assets

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

14 Assets held for sale

The assets of EUR 30 million that were held for sale at the end of 2017 concerned participating equity investments in a fund that finances infrastructural projects. This participating interest was sold in 2018.

15 Amounts due to banks

In 2018, this line item includes payables related to 'Settle to Market' (STM) derivative contracts, including variation margin and related price alignment amounts, that are considered as a single unit of account.

	31/12/2018	31/12/2017
Current account balances	0	0
Payables related to STM derivative contracts	1	–
Deposits	1,837	1,832
Private loans	545	247
Total	**2,383**	**2,079**

16 Cash collateral received

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

17 Financial liabilities at fair value through the income statement

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

	31/12/2018	31/12/2017
Publicly placed debt securities	238	715
Privately placed debt securities	524	229
Total	**762**	**944**

The total redemption value of the debt securities at year-end 2018 is EUR 613 million (2017: EUR 765 million). The difference between the financial liability's carrying amount and the redemption value at year-end 2018 is EUR 149 million (2017: EUR 179 million). Financial liabilities are measured at fair value through the income statement on the relevant funding curve including a mark-up for 'own credit risk'. The total change in value (before tax) was EUR 7 million positive (2017: EUR 11 million positive). Changes in fair value due to own credit risk are recognised through other comprehensive income. These changes are determined by comparing the valuation using the relevant funding curve including a mark-up for 'own credit risk' and the valuation using the relevant funding curve without this mark-up. Note 27 explains the changes in value recognised through the income statement.

18 Derivatives

This balance sheet item includes the negative fair value of derivatives not settled-to-market. Note 27 explains the changes in fair value recognised through the income statement.

	31/12/2018	31/12/2017
Derivatives not involved in a hedge accounting relationship	819	1,001
Derivatives involved in a portfolio hedge accounting relationship	15,586	16,598
Derivatives involved in a micro hedge accounting relationship	2,818	4,271
Total	**19,223**	**21,870**

19 Debt securities

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

	31/12/2018	31/12/2017
Bond loans	89,531	89,895
Commercial Paper	5,323	9,204
Privately placed debt securities	8,869	5,028
Total	**103,722**	**104,127**

20 Funds entrusted

	31/12/2018	31/12/2017
Current account balances	2,193	1,846
Short-term deposits	91	0
Long-term deposits	3,516	3,571
Total	**5,800**	**5,417**

21 Subordinated debt

	31/12/2018	31/12/2017
Subordinated debt	32	31
Total	**32**	**31**

22 Taxes

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

	31/12/2018	31/12/2017
Current tax assets	7	–
Current tax liabilities	–	-17
Deferred tax liabilities	-99	-173
Total	**-92**	**-190**

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement (‘vaststellingsovereenkomst’) in 2018 in accordance with IFRS 9, for the period 2018-2020. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets at fair value through the income statement. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached.

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

	2018	2017
Nominal and effective tax rate		
Profit before tax	459	536
Tax levied at the nominal tax rate	-114	-134
Tax adjustment from previous years	0	0
Participation exemption	0	0
Result on the sale of BNG Vermogensbeheer not subject to tax	–	0
Non-deductible costs (bank levy)	-8	-9
Effective tax	**-122**	**-143**
Nominal tax rate	25.0%	25.0%
Effective tax rate	26.6%	26.7%

Due to expected changes in the nominal tax rate in 2020 and 2021, the deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

	2018			
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
Changes in deferred taxes				
Fiscal treatment opening balance sheet	0	–	–	0
Financial assets available-for-sale	-102	102	–	–
Financial assets at fair value through other comprehensive income	–	-32	–	-32
Cash flow hedge reserve	-65	3	–	-62
Own Credit Adjustment	-3	1	–	-2
Hybrid capital	-4	0	–	-4
Employee benefits provision	1	–	0	1
Total	**-173**	**74**	**0**	**-99**

	2017			
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
Changes in deferred taxes				
Fiscal treatment opening balance sheet	0	–	–	0
Financial assets available-for-sale	-104	2	–	-102
Cash flow hedge reserve	-2	-63	–	-65
Own Credit Adjustment	-8	5	–	-3
Hybrid capital	-3	-1	–	-4
Employee benefits provision	1	–	0	1
Total	**-116**	**-57**	**0**	**-173**

23 Other liabilities

	31/12/2018	31/12/2017
Employee benefits provision	2	2
Other liabilities	76	43
Total	**78**	**45**

The employee benefits provision is made up of two parts, a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 1 million (2017: EUR 1 million) and a provision for vitality leave of EUR 1 million (2017: EUR 1 million). Both provisions have a long-term character.

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

	2018	2017
Employee benefits provision		
Net liability as at 1 January	2	3
Movements in the provision	0	-1
Net liability as at 31 December	**2**	**2**

The other liabilities are mainly composed of amounts payable related to derivatives and lending to clients.

24 Equity

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

		31/12/2018		31/12/2017
Share capital		139		139
Share premium reserve		6		6
Revaluation reserve				
– Financial assets available-for-sale			259	
– Financial assets at fair value through other comprehensive income	125			
		125		259
Cash flow hedge reserve	10			193
Own credit adjustment	9			9
Cost of hedging reserve	222			
Other reserves	3,410			3,221
Unappropriated profit	337			393
Equity attributable to shareholders		**4,258**		**4,220**
Hybrid capital		733		733
Total		**4,991**		**4,953**

	2018	2017
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	2.85	2.53
Proposed dividend		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	152	134
Total	**159**	**141**

The proposed dividend distribution for 2018 takes into account the EUR 25 million dividend (before tax) that has already been paid on the hybrid capital in 2018. This payment was charged to the Other reserves.

Share capital

The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. There are no issued shares that are not fully paid up. BNG Bank and its subsidiaries hold no company shares. None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

Share premium reserve

There were no movements in 2018 and 2017.

Revaluation reserve

At year-end 2018, the revaluation reserve includes EUR 292 million in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets at fair value through other comprehensive income. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement.

Cash flow hedge reserve

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

Own credit adjustment

The Own Credit Adjustment amounts to EUR 9 million net of taxes (2017: EUR 9 million). This adjustment relates to changes in credit risk of financial liabilities measured at fair value through the income statement.

Cost of hedging reserve

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

Other reserves

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves. In 2018, a dividend of EUR 141 million (2017: EUR 91 million) was paid out to the bank's shareholders, charged to the Other reserves. EUR 25 million (before tax) was distributed to the holders of the hybrid capital in 2018 (2017: EUR 24 million), charged to the Other reserves. The Other reserves include a share premium related to hybrid capital of EUR 0.1 million in total (2017: EUR 0.1 million).

Unappropriated profit

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

Hybrid capital

The bank's hybrid capital amounts to EUR 733 million. In 2018 no additional hybrid capital was issued. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to compulsory amortisation in the event that the CET1 ratio falls below 5.125%. The payment qualifies as dividend under IFRS and is charged to the Other reserves. The deductibility of this dividend for corporate income tax purposes ends 31 December 2018.

The instruments are structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. BNG Bank has the unilateral contractual option of repaying the perpetual capital instruments prematurely on the sixth coupon due date (in May 2021 and 2022) and subsequently every year on the coupon due date.

25 Interest result

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

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

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

	2018	2018	2017	2017
Interest revenue				
Interest revenue calculated by using the effective interest method:				
– Financial assets at amortised cost	2,255		2,325	
– Financial assets at fair value through other comprehensive income	183		–	
– Financial assets available-for-sale	–		244	
– Derivatives involved in hedge accounting	2,673		2,798	
– Negative interest expenses on financial liabilities	44		39	
		5,155		5,406
Other interest revenue:				
– Financial assets designated at fair value through the income statement	46		55	
– Financial assets mandatorily at fair value through the income statement	3			
– Derivatives not involved in hedge accounting	516		427	
– Other	–		17	
		565		499
Total interest revenue		**5,720**		**5,905**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
– Financial liabilities at amortised cost	2,370		2,228	
– Derivatives involved in hedge accounting	2,705		3,003	
– Negative interest expenses on financial assets	104		86	
		5,179		5,317
Other interest expenses:				
– Financial liabilities designated at fair value through the income statement	64		41	
– Derivatives not involved in hedge accounting	36		57	
– Other	7		55	
		107		153
Total interest expenses		**5,286**		**5,470**
Total interest result		**434**		**435**

The interest revenue in 2018 includes EUR 1 million (2017: EUR 4 million) in interest revenue for financial assets, relating to Financial assets at amortised cost (notes 8 and 9) and Financial assets at fair value through other comprehensive income (note 6), which were subject to impairment.

26 Commission result

Commission income

This item includes income from services provided to third parties.

	2018	2017
Income from loans and credit facilities	21	16
Income from payment services	9	10
Total	**30**	**26**

Commission expenses

This item comprises expenses totalling EUR 2 million (2017: EUR 3 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

27 Result on financial transactions

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

		2018		2017
Market value changes in financial assets at fair value through the income statement resulting from changes in credit and liquidity spreads, consisting of:				
– Interest-bearing securities	11		42	
– Structured loans	–2		2	
		9		44
Result on hedge accounting				
– Portfolio fair value hedge accounting	18		48	
– Micro fair value hedge accounting	–2		–24	
– Micro cash flow hedge accounting	–2		–3	
		14		21
Change in counterparty credit risk of derivatives (CVA/DVA)		12		37
Realised sales and buy-out results		36		52
Other market value changes		40		27
Total		**112**		**181**

Also in 2018, the result on financial transactions was positively affected by realised and unrealised results. The realised results of EUR 36 million were mainly related to sales of interest-bearing securities out of the liquidity portfolio. The unrealised results amounted to EUR 76 million. The reduced credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a positive result of EUR 12 million. The unrealised results were also positively affected by a decline in counterparty credit risk of derivatives, results on hedge accounting and other market value changes. The other market value changes also include the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

28 Results from associates and joint ventures

	2018	2017
Associates	2	1
Joint ventures	2	1
Total	**4**	**2**

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

29 Result from sale of assets held for sale

The investments in participating interests that were held for sale at the end of 2017 concern equity investments in a fund that finances infrastructural projects. This investment was sold in 2018. The difference between the balance sheet value (including the value recognised in the revaluation reserve) and the sales proceeds was attributed to the results from sale of assets held for sale item in the income statement.

30 Other results

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

31 Staff costs

	2018	2017
Wages and salaries	27	26
Pension costs	4	4
Social security costs	3	3
Additions to the employee benefits provision	0	0
Other staff costs	6	11
Total	**40**	**44**

The variable remuneration of individual staff members in 2018 was maximized at 20% of their fixed salary (2017: 20%).

32 Other administrative expenses

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, printing costs, training expenses and advertising expenses. The total other administrative expenses for 2018 amounted to EUR 33 million (2017: EUR 26 million).

33 Depreciation

A breakdown of this item is included in the note on Property and equipment (note 12). In total, the depreciation charges amounted to EUR 3 million in 2018 (2017: EUR 2 million).

34 Net impairment losses on financial assets

The impairments in 2018 amounted to EUR 2 million negative (2017: EUR 7 million negative). A negative impairment loss constitutes a positive result in the income statement.

	STAGE 1	STAGE 2	STAGE 3	TOTAL
				2018
Impairment results due to movements in allowances:				
– Increases in allowances due to origination and acquisition	4	8	0	12
– Decreases in allowances due to derecognition	-3	-9	-4	-16
– Changes in allowances due to changes in credit risk (net)	0	4	-1	3
	1	**3**	**-5**	**-1**
Impairment results not due to movements in allowances:				
– Reversal of impairment due to cash flows received from past write-offs			0	0
– Impairments due to write-offs			-1	-1
	0	**0**	**-1**	**-1**
Net impairment result on financial assets	**1**	**3**	**-6**	**-2**

Movement in allowances for expected credit losses under IFRS 9

	STAGE 1	STAGE 2	STAGE 3	TOTAL
				2018
Movements in allowances taken through the income statement:				
– Increases in allowances due to origination and acquisition	4	8	0	12
– Decreases in allowances due to derecognition	-3	-9	-4	-16
– Changes in allowances due to changes in credit risk (net)	0	4	-1	3
	1	**3**	**-5**	**-1**
Movements in allowances not taken through the income statement:				
– Decreases in allowance due to write-offs			-8	-8
	0	**0**	**-8**	**-8**
Total movements in allowances	**1**	**3**	**-13**	**-9**

Note 41 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

Movement in allowances for credit losses under IAS 39

	2017
Addition to the incurred loss provision	3
Release from the incurred loss provision	-7
Reversal of impairment of reclassified financial assets available-for-sale	-3
Total	**-7**

The changes in the incurred loss provision are included in the Loans and advances item (Note 9).

35 Net impairment losses on associates and joint ventures

	2018	2017
Impairment of associates and joint ventures	5	1
Reversal of impairment of associates and joint ventures	-1	-4
Total	**4**	**-3**

Impairments on six BNG Gebiedsontwikkeling participations amounted to EUR 5 million (2017: EUR 1 million) and impairments on two participations were reversed for a total of EUR 1 million (2017: EUR 4 million). The reversal of impairment is a consequence of renegotiations with other participators about restructuring the participation and as a result of the improved market conditions. All participations are valued on a going concern basis.

36 Contribution to resolution fund and bank levy

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 12 million payable for 2018 (2017: EUR 9 million) was paid in December 2018 and charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay the bank levy in October of every year, which for 2018 amounted to EUR 31 million (2017: EUR 36 million).

	2018	2017
The bank levy is calculated as follows:	**Basis 2017**	**Basis 2016**
Balance sheet total	140,025	154,000
Less: Tier 1 capital	4,518	4,211
Less: Deposits covered by the deposit-guarantee scheme	43	43
Taxable base	**135,464**	**149,746**
Less: Efficiency exemption	20,900	20,000
Taxable amount	**114,564**	**129,746**
Total sum of debts with a maturity of less than one year, according to note 38	33,152	40,117
Total sum of all debts, according to the balance sheet	135,072	149,514
Bank levy on short-term debt	12	15
Bank levy on long-term debt	19	21
Total calculated/due	**31**	**36**

37 Fees of independent auditors

The fees paid to independent auditors are included in Other administrative expenses. In conformity with Section 382a of Part 9, Book 2 of the Dutch Civil Code, a breakdown of the fees paid to the independent auditors for audits and audit-related and non-audit-related services is given in note 35 to the company financial statements.

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

						31/12/2018
	DUE ON DEMAND	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	1,587					1,587
Amounts due from banks	4	9	9	46	14	82
Cash collateral posted		12,043				12,043
Financial assets at fair value through the income statement		11	46	231	1,318	1,606
Derivatives		333	1,089	4,168	2,800	8,390
Financial assets at fair value through other comprehensive income		108	249	4,322	4,969	9,648
Interest-bearing securities at amortised cost		399	801	2,837	3,369	7,406
Loans and advances	1,284	5,233	9,324	32,739	36,454	85,034
Value adjustments on loans in portfolio hedge accounting		10	86	1,870	9,600	11,566
Current tax assets			7			7
Other assets		79				79
Total assets	**2,875**	**18,225**	**11,611**	**46,213**	**58,524**	**137,448**
Amounts due to banks	0	1,783	80	95	425	2,383
Cash collateral received		419				419
Financial liabilities at fair value through the income statement		3	5	221	533	762
Derivatives		638	874	5,579	12,132	19,223
Debt securities		8,550	13,532	48,739	32,901	103,722
Funds entrusted	2,193	156	478	2,060	913	5,800
Subordinated debt		1		18	13	32
Deferred tax liabilities			5	20	74	99
Other liabilities		73	1	2	2	78
Total liabilities	**2,193**	**11,623**	**14,975**	**56,734**	**46,993**	**132,518**

	DUE ON DEMAND	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	31/12/2017 TOTAL
Cash and balances held with central banks	2,996					2,996
Amounts due from banks	3	1	73	25	3	105
Cash collateral posted		13,892				13,892
Financial assets at fair value through the income statement		26	68	374	1,538	2,006
Derivatives		386	1,154	4,833	2,609	8,982
Financial assets available-for-sale		249	433	5,266	8,162	14,110
Loans and advances	1,511	5,501	9,404	33,135	36,457	86,008
Value adjustments on loans in portfolio hedge accounting		10	74	1,968	9,761	11,813
Other assets		18	1			19
Assets held for sale			30			30
Total assets	**4,510**	**20,083**	**11,237**	**45,601**	**58,530**	**139,961**
Amounts due to banks	0	1,681	163	48	187	2,079
Cash collateral received		369				369
Financial liabilities at fair value through the income statement		27	170	211	536	944
Derivatives		430	1,498	7,958	11,984	21,870
Debt securities		9,130	17,491	46,424	31,082	104,127
Funds entrusted	1,846	102	184	2,311	974	5,417
Subordinated debt		1	0	2	28	31
Current tax liabilities			17			17
Deferred tax liabilities					173	173
Other liabilities		43			2	45
Total liabilities	**1,846**	**11,783**	**19,523**	**56,954**	**44,966**	**135,072**

39 Breakdown of financial instruments by category

				31/12/2018
	AMORTISED COST	FAIR VALUE THROUGH THE INCOME STATEMENT	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	TOTAL
Cash and balances held with central banks	1,587			1,587
Amounts due from banks	82			82
Cash collateral posted	12,043			12,043
Financial assets at fair value through the income statement		1,606		1,606
Derivatives		8,390		8,390
Financial assets at fair value through other comprehensive income			9,648	9,648
Interest-bearing securities at amortised cost	7,406			7,406
Loans and advances	85,034			85,034
Value adjustments on loans in portfolio hedge accounting	11,566			11,566
Total assets	**117,718**	**9,996**	**9,648**	**137,362**
Amounts due to banks	2,383			2,383
Cash collateral received	419			419
Financial liabilities at fair value through the income statement		762		762
Derivatives		19,223		19,223
Debt securities	103,722			103,722
Funds entrusted	5,800			5,800
Subordinated debt	32			32
Total liabilities	**112,356**	**19,985**	**-**	**132,341**

				31/12/2017
	AMORTISED COST	FAIR VALUE THROUGH THE INCOME STATEMENT	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	TOTAL
Cash and balances held with central banks	2,996			2,996
Amounts due from banks	105			105
Cash collateral posted	13,892			13,892
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 in portfolio hedge accounting	11,813			11,813
Assets held for sale			30	30
Total assets	**114,814**	**10,988**	**14,140**	**139,942**
Amounts due to banks	2,079			2,079
Cash collateral received	369			369
Financial liabilities at fair value through the income statement		944		944
Derivatives		21,870		21,870
Debt securities	104,127			104,127
Funds entrusted	5,417			5,417
Subordinated debt	31			31
Total liabilities	**112,023**	**22,814**	**-**	**134,837**

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

					2018
	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DEBT SECURITIES	SUB-ORDINATED DEBT	HYBRID CAPITAL	TOTAL
Balance sheet at 1 January 2018	**944**	**104,323**	**31**	**733**	**106,031**
Cash flows from financing activities					
Proceeds from financing activities	–	313,242	–	–	313,242
Repayments on financing activities	–185	–316,234	0	–	–316,419
Interest and other cash flows	–26	–1,736	–1	–	–1,763
Dividend distribution on hybrid capital				–25	–25
	-211	**-4,728**	**-1**	**-25**	**-4,965**
Non-cash changes					
Unrealised results:					
– Foreign exchange movement	23	2,156	-	-	2,179
– Fair value changes	-29	-186	-	-	-215
Realised results	35	2,157	2	-	2,194
	29	**4,127**	**2**	**-**	**4,158**
Dividend distributed from Other reserves				25	25
Balance at 31 December 2018	**762**	**103,722**	**32**	**733**	**105,249**

	2017				
	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DEBT SECURITIES	SUB-ORDINATED DEBT	HYBRID CAPITAL	TOTAL
Balance sheet at 1 January 2017	**1,190**	**112,180**	**31**	**733**	**114,134**
Cash flows from financing activities					
Proceeds from financing activities	11	222,828			222,839
Repayments on financing activities	-183	-223,076	-1		-223,260
Interest and other cash flows	-15	-1,857	-1		-1,873
Dividend distribution on hybrid capital				-23	-23
	-187	**-2,105**	**-2**	**-23**	**-2,317**
Non-cash changes					
Unrealised results:					
– Foreign exchange movement	-98	-6,764			-6,862
– Fair value changes	3	-1,311			-1,308
Realised results	36	2,127	2		2,165
	-59	**-5,948**	**2**	**0**	**-6,005**
Dividend distributed from Other reserves				23	23
Balance at 31 December 2017	**944**	**104,127**	**31**	**733**	**105,835**

41 Impairment of financial assets and off-balance sheet commitments

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

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

Stage 1: performing exposures without significant increase in credit risk (SICR) since initial recognition.

Stage 2: performing exposures with significant increase in credit risk since initial recognition (not credit-impaired).

Stage 3: non-performing exposures (credit-impaired).

	31/12/2018						
		GROSS CARRYING AMOUNT			ALLOWANCE FOR CREDIT LOSS		
	CARRYING AMOUNT	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
		STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Financial assets subject to impairment							
Cash and balances held with central banks	1,587	1,587					
Amounts due from banks	82	82	0		0	0	
Cash collateral posted	12,043	12,043					
Financial assets at fair value through OCI*	9,648	9,595	53		0	-1	
Interest-bearing securities at amortised cost	7,406	7,319	94		-1	-6	
Loans and advances	85,034	83,664	1,360	57	-4	-27	-16
Total	**115,800**	**114,290**	**1,507**	**57**	**-5**	**-34**	**-16**

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

	31/12/2018					
	NOMINAL AMOUNT			PROVISION		
	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
	STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Off-balance sheet commitments						
Contingent liabilities	31	1		0	0	
Revocable facilities	6,015	35		0	0	
Irrevocable facilities	7,504	120		-1	-1	
Total	**13,550**	**156**	**-**	**-1**	**-1**	**-**

Movements in allowances and provisions for expected credit losses

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

	OPENING BALANCE	INCREASES DUE TO ORIGINATION AND ACQUISITION	DECREASE DUE TO DERECOG-NITION REPAYMENTS AND DISPOSALS	CHANGES DUE TO CHANGE IN CREDIT RISK (NET)	DECREASE IN ALLOWANCE ACCOUNT DUE TO WRITE-OFFS	CLOSING BALANCE
						2018
Allowances						
Cash and balances held with central banks	–	–	–	–	–	–
Amounts due from banks	0	0	0	0	–	0
Financial assets at fair value through OCI	1	0	0	0	–	1
Interest-bearing securities at amortised cost	13	2	-1	1	-8	7
Loans and advances	50	8	-13	2	–	47
	64	**10**	**-14**	**3**	**-8**	**55**
Provision						
Off-balance sheet commitments	2	2	-2	0	–	2

Modifications of contractual cash flows

There have been no financial assets for which the contractual cash flows have been modified during 2018 while they had a loss allowance measured at an amount equal to lifetime expected credit loss (i.e. stage 2 or 3). No financial assets which were modified in previous reporting periods while they had a loss allowance measured at an amount equal to lifetime expected credit loss (stage 2 or 3) have been moved back to stage 1 during 2018.

Key inputs and assumptions

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

Probability of default

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

approved in the Asset and Liability Committee (ALCO). In doing so, BNG Bank ensures that the PDs are reasonable and supportable. In 2018 an external party executed a benchmark exercise and concluded that the bank's PD-models are fit for purpose. Before the end of 2019, the bank strives to follow up on the four recommendations which were qualified with a low severity.

Loss given default

Because of its low default credit portfolio and the lack of historical internal LGD data, BNG Bank is not able to create LGD models. Therefore, BNG Bank applies a basic flat LGD approach, with four different LGD percentages for its entire exposure:

- 0% for exposures granted to or guaranteed by (Dutch) central or regional governments;
- 10% for government bonds issued by central or regional governments in the EU;
- 35% for exposure without a guarantee of a central or regional government and senior unsecured bonds; and
- 75% for subordinated loans.

Exposure at default

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

Significant increase in credit risk

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

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

Forward-looking macroeconomic information

Historic analysis is performed to identify the key macroeconomic variables, which are provided by the bank's economist on a quarterly basis. Expert judgement is applied. The macroeconomic factors applied in determining the probability of default for non-securitisations are the nominal GDP, the unemployment rate, and the wage rate. For securitisations the applied macroeconomic factors are the house price index, the long term interest rate, and debt.

Non-securitisations			
Macroeconomic variable	HORIZON	SCENARIO	WEIGHTING AS AT 31/12/2018
Gross Domestic Product (GDP) for the Netherlands	3 years	Base scenario	70%
Unemployment rate for the Netherlands	3 years	Upward scenario	10%
Wage growth rate	3 years	Downward scenario	20%
Securitisations			
Macroeconomic variable	HORIZON	SCENARIO	WEIGHTING AS AT 31/12/2018
House price indices in the Euro area (17 countries)	3 years	Base scenario	65%
Long-term interest rates in the Euro area (19 countries)	3 years	Up scenario	10%
Debt (Credit to households and NPISHs*) in the Euro area	3 years	Down scenario	25%

* Non-profit institutions serving households

Non-performing or credit-impaired exposures

BNG Bank applies the following criteria to designate exposures as non-performing or credit-impaired:

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

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

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

Sensitivity analysis of credit loss allowances

In order to measure the sensitivity of the credit loss allowances to changes in the input factors, three different scenarios are used to (re)calculate the size of the credit loss allowances as at 31 December 2018.

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

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

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

The following table shows the sensitivity (in millions of euros) of the total credit loss allowances in the 3 different scenarios.

				31/12/2018
	ACTUAL BALANCE	SCENARIO A (1 NOTCH DOWN)	SCENARIO B (LGD FROM 0% TO 10%)	SCENARIO C (THROUGH-THE CYCLE PDS)
Allowances				
Cash and balances held with central banks	–	–	0	–
Amounts due from banks	0	0	0	0
Financial assets at fair value through OCI	1	1	1	1
Interest-bearing securities at amortised cost	7	9	7	6
Loans and advances	47	56	68	60
	55	**66**	**76**	**67**
PROVISION				
Off-balance sheet commitments	2	3	3	4

Hedging of risks with derivatives

BNG Bank applies economic hedging in order to mitigate foreign exchange risks and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is strictly adhered to and is monitored on a daily basis. Foreign exchange and interest rate risks are hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. For accounting purposes, BNG Bank processes this hedging relationship under IFRS by applying micro and portfolio fair value hedging, as well as cash flow hedging. The Accounting principles for the consolidated financial statements section describes the conditions that need to be met before these forms of hedge accounting can be applied. The introduction of IFRS 9 as of 1 January 2018, did not have any impact on the hedging strategy of the bank.

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

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

The basis swap spread is an important building block of the value of a cross-currency (interest rate) swap. The introduction of IFRS 9 changed the treatment of the basis spread. The fluctuations of the basis spread can never be part of the hedge relationship. If micro hedging is applied the fluctuations of the basis spread are separated as 'cost of hedging' reserve within equity.

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

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

The following table shows the maturity profile as at 31 December 2018 of all derivatives based on their notional amounts.

				31/12/2018
	UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	7,308	21,547	60,285	89,140
Derivatives involved in micro hedge accounting				
Interest rate swaps	5,006	18,789	22,235	46,030
Cross-currency swaps	9,849	26,357	8,366	44,572
Derivatives not involved in hedge accounting				
Interest rate swaps	114	2,224	771	3,109
Cross-currency swaps	–	180	866	1,046
FX-swaps	7,310	–	–	7,310
Other derivatives	100	1,549	734	2,383
Total	**29,687**	**70,646**	**93,257**	**193,590**

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

	31/12/2018		31/12/2017	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL-AMOUNT	FAIR VALUE
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	22,637	2,853	33,255	3,795
Derivatives involved in micro hedge accounting				
Interest rate swaps	33,802	2,199	40,399	2,212
Cross-currency swaps	25,626	3,050	16,282	2,702
Derivatives not involved in hedge accounting				
Interest rate swaps	2,209	51	2,303	63
Cross-currency swaps	568	172	711	189
FX-swaps	3,310	54	2,059	11
Other derivatives	121	11	123	10
Total derivatives stated as assets	**88,273**	**8,390**	**95,132**	**8,982**
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	66,504	15,587	74,506	16,598
Derivatives involved in micro hedge accounting				
Interest rate swaps	7,229	939	9,705	1,257
Cross-currency swaps	18,946	1,879	31,398	3,014
Derivatives not involved in hedge accounting				
Interest rate swaps	898	327	926	377
Cross-currency swaps	478	325	519	347
FX-swaps	4,000	21	9,157	133
Other derivatives	2,262	145	2,376	144
Total derivatives stated as liabilities	**100,317**	**19,223**	**128,587**	**21,870**

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2018, this collateral amounted to EUR 414 million (2017: EUR 369 million), all in cash.

With regard to derivatives, BNG Bank provided EUR 12,500 million in collateral in 2018 (2017: EUR 14,326 million), of which EUR 12,038 million in cash (2017: EUR 13,892 million) and EUR 462 million in interest-bearing securities (2017: EUR 434 million).

Fair value hedge accounting

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

					31/12/2018
	GROSS CARRYING AMOUNT OF HEDGED ITEMS	ACCUMULATED AMOUNT OF FAIR VALUE ADJUSTMENTS ON THE HEDGED ITEMS OR THROUGH OCI	GAIN/LOSSES ATTRIBUTABLE TO THE HEDGED ITEM	GAIN/LOSSES ATTRIBUTABLE TO THE HEDGING INSTRUMENT	HEDGE INEFFECTIVE-NESS
Fair value hedges					
Micro fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	8,573	620	-10	2	-8
Fixed rate bonds in Interest-bearing securities at AC	1,231	58	-20	29	9
	9,804	**678**	**-30**	**31**	**1**
Micro fair value hedges (hedged items stated as liabilities)					
Fixed rate loans in Amounts due to banks	-545	-4	-7	7	0
Fixed rate bonds in Debt securities	-88,814	-2,318	-958	955	-3
Fixed rate loans in Funds entrusted	-1,564	3	-72	72	0
	-90,378	**-2,315**	**-1,030**	**1,027**	**-3**
Total micro fair value hedges	**-80,574**	**-1,637**	**-1,060**	**1.058**	**-2**
Portfolio fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	1,025	167	-2	0	-2
Fixed rate bonds in Interest-bearing securities at AC	1,508	18	0	0	0
Fixed rate loans in Loans and advances	72,361	11,548	11	9	20
Total portfolio fair value hedges	**74,894**	**11,733**	**9**	**9**	**18**
Total fair value hedges			**-1,051**	**1,067**	**16**

Cash flow hedge accounting

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

						31-12-2018
		GROSS CARRYING AMOUNT OF HEDGED ITEMS		CHANGES IN FAIR VALUE OF HEDGING INSTRUMENTS USED FOR MEASURING HEDGE INEFFECTIVENESS		
	NOTIONAL AMOUNT OF HEDGING INSTRUMENTS	ASSETS	LIABILITIES	EFFECTIVE PORTION RECOGNISED IN OCI	HEDGE INEFFECTIVENESS RECOGNISED IN PROFIT OR LOSS	RECLASSIFIED AS INTEREST RESULT CALCULATED USING THE EFFECTIVE INTEREST METHOD
Cash flow hedges						
Micro cash flow hedges						
Cross currency swaps	2,633	51	–2,643	13	–2	5
Total cash flow hedges	**2,633**	**51**	**–2,643**	**13**	**–2**	**5**

The following table shows the weighted average FX rates for the major currencies of the final exchange of cross-currency swaps involved in a micro cash flow hedge accounting relationship as at 31 December 2018.

				31/12/2018
	UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
FX rate				
USD to EUR	0.86988	0.84505	0.80223	0.84597
GBP to EUR	1.36866	1.22312	1.29477	1.28522

Fair value of financial instruments

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

Fair value hierarchy

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

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

In many cases, the bank is reliant on theoretical valuations (Level 2) in respect of its position with 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).

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

The bank applies a spread over the relevant swap curve to determine its own credit risk: the 'own credit adjustment (OCA)'. The OCA only relates to instruments included under Financial liabilities at fair value through the income statement.

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

	31/12/2018		31/12/2017	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances held with central banks	1,587	1,587	2,996	2,996
Amounts due from banks	82	83	105	106
Cash collateral posted	12,043	12,043	13,892	13,892
Financial assets at fair value through the income statement	1,606	1,606	2,006	2,006
Derivatives	8,390	8,390	8,982	8,982
Financial assets at fair value through other comprehensive income	9,648	9,648		
Financial assets available-for-sale			14,110	14,110
Interest-bearing securities at amortised cost	7,406	7,422		
Loans and advances	85,034	98,036	86,008	99,811
Total financial assets	**125,796**	**138,815**	**128,099**	**141,903**
Amounts due to banks	2,383	2,377	2,079	2,078
Cash collateral received	419	419	369	369
Financial assets at fair value through the income statement	762	762	944	944
Derivatives	19,223	19,223	21,870	21,870
Debt securities	103,722	104,560	104,127	105,595
Funds entrusted	5,800	6,002	5,417	5,688
Subordinated debt	32	45	31	46
Total financial liabilities	**132,341**	**133,388**	**134,837**	**136,590**

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

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

				31/12/2018
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	89	1,147	370	1,606
Derivatives	–	8,382	8	8,390
Financial assets at fair value through other comprehensive income	9,566	82	–	9,648
Total financial assets	**9,655**	**9,611**	**378**	**19,644**
Financial liabilities at fair value through the income statement	98	664	–	762
Derivatives	–	19,215	8	19,223
Total financial liabilities	**98**	**19,879**	**8**	**19,985**

				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**

Significant movements in fair value level 3 items

						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	11		6		6	
– Unrealised result on financial transactions	1		–7		–7	
– Realised result on financial transactions	–		–		–	
		12		–1		–1
– Unrealised value adjustments via the revaluation reserve		–		–		–
– Investments		–		–		–
– Cash flows		–9		–4		–4
Closing balance		**370**		**8**		**8**

								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	–		–		–		–	
		9		–10		0		–14
– Unrealised value adjustments via the revaluation reserve		–		–		1		–
– Investments		0		0		–30		0
– Cash flows		–40		–3		4		–4
Closing balance		**623**		**13**		**0**		**13**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded in the market. Therefore, the observable market data available for similar securities is not fully representative of the current fair value. The fair value of these transactions is determined on the basis of public market data that is adjusted using significant input variables not publicly observable in the market. A total of EUR 30 million was reclassified in 2017 from the Financial assets available-for-sale item to the Held for sale item in relation to the investment in an infrastructure fund.

Input variables which are not publicly observable in the market

For the purpose of determining the fair value of Level 3 financial assets with an inflationary component and a monoline guarantee, the following input variables not publicly observable in the market are used:

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

These input variables were estimated by management based on data which is not publicly observable in the market and remained unchanged compared to 2017.

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

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

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

	31/12/ 2018	31/12/ 2017	31/12/ 2018	31/12/ 2017	31/12/ 2018	31/12/ 2017	31/12/ 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	370	623	8	13	-8	-13	370	623
Interest rate								
+10 basis points	-8	-8	-2	-3	0	0	-10	-11
-10 basis points	8	8	2	3	0	0	10	11
+100 basis points	-68	-69	-20	-32	3	3	-85	-98
-100 basis points	92	94	21	34	-4	-5	109	123
Inflation rate								
+10 basis points	8	8	0	0	0	0	8	8
-10 basis points	-8	-8	0	0	0	0	-8	-8
+100 basis points	89	90	0	0	0	0	89	90
-100 basis points	-66	-67	0	0	0	0	-66	-67
Credit and liquidity risk spreads								
+10 basis points	-8	-9	1	2	1	1	-6	-6
-10 basis points	8	10	-1	-1	-2	-1	5	8
+100 basis points	-69	-83	16	28	4	1	-49	-54
-100 basis points	93	110	-2	-8	-19	-20	72	82
Total significant input factors								
+10 basis points	-8	-10	-1	-2	1	2	-8	-10
-10 basis points	8	10	2	2	-2	-2	8	10
+100 basis points	-70	-83	-4	-6	4	6	-70	-83
-100 basis points	97	115	19	27	-19	-25	97	117

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

The major part of the assets in Level 3 (EUR 360 million) consists of so-called inflation-linked bonds, where the foreign currency risk, 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 78 million at year-end 2018 (year-end 2017: EUR 72 million negative). The sensitivity of these instruments in the Financial assets at fair value through the income statement item decreased in 2018. Also a subordinated loan is classified ad level 3 since implementation of IFRS 9. The credit spread of this assets is the main unobservable parameter. A movement of the credit spread by +100 basis points has an impact of EUR 1 million negative.

The Derivatives (stated as liabilities) item features a Level 3 separated option linked to the French government interest rate. This option is hedged with a Level 3 swap including an option recognised under the Derivatives (stated as assets) item. The swap is sensitive to the euro swap rate and the French government interest rate and also to counterparty risk. The credit and liquidity spreads decreased during 2018.

Fair value hierarchy of amortised cost transactions

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

				31/12/2018
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	1,587	–	–	1,587
Amounts due from banks	4	72	7	83
Cash collateral posted	–	12,043	–	12,043
Interest-bearing securities at amortised cost	246	6,856	320	7,422
Loans and advances	1,270	89,236	7,530	98,036
Total financial assets	**3,107**	**108,207**	**7,857**	**119,171**
Amounts due to banks	–	2,377	–	2,377
Cash collateral received	–	419	–	419
Debt securities	85,520	17,878	1,162	104,560
Funds entrusted	2,193	–	3,809	6,002
Subordinated debt	–	–	45	45
Total financial liabilities	**87,713**	**20,674**	**5,016**	**113,403**

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

Risk section

Institutional risk management approach

The process of accepting and controlling risks is inherent to the day-to-day operations of any bank. In order to conduct its operations, a bank must accept a certain amount of credit, market, liquidity and operational risk. On top of this, there is strategic risk. Full disclosures on risk management practices are included in the separate Pillar 3 report which is published on the website of BNG Bank together with this annual report. Besides a summarizing overview on the main characteristics of the risk profile of BNG Bank, this section only includes those risk management practices that directly impact the financial statements.

BNG Bank's risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its high external credit ratings. BNG Bank's strict capitalisation policy, the restriction on services and counterparties as laid down in its Articles of Association and the fact that the bank has no trading book, determine the scope, size and sphere of the bank's risk appetite.

BNG Bank has adopted a Risk Management Framework (RMF). The Risk Management Framework consists of a number of overarching framework documents as well as policies on general and specific risk-related topics. This framework identifies and defines the various risk types, defines the risk appetite of the bank, describes the bodies involved in risk governance, sets out the responsibilities, and includes the various documents and policies that describe the acceptance and management of these risks.

The Risk Management Framework of the bank aims to do justice to the straightforward business profile based on a strong interconnectedness with the Dutch public sector, resulting in a low default credit risk and a relatively large balance sheet. We use a standard cycle to identify, assess, measure, monitor, report and steer the various types of risk.

In 2018, BNG Bank has adopted the 3LoD (three lines of defence) model. The principles of this model were already being applied by BNG Bank but responsibilities have now been clarified. As of 1 October 2018 the responsibilities within the Board are redistributed over the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO). Also, since October 2018, both the Risk Management function and the Compliance function report to the CRO.

The 3LoD model distinguishes three groups (or lines) involved in effective internal control and risk management:
- first line, Risk Ownership – Business (Core Business and Support functions);
- second line, Risk Control – Risk Management, Compliance & Integrity, Security, Management Control;
- third line, Risk Assurance – Internal Audit Department.

Each line of defence has a defined role in the internal control and risk management system. The model ensures that there is adequate segregation of duties between direct accountability for risk decisions (first line), independent monitoring and challenge of risk decisions and setting the risk management framework (second line), and independent assurance on the effectiveness of risk management, control and governance processes (third line). In addition, the Executive Board, Management Board and Supervisory Board play an oversight role. The responsibilities of the Executive Board, the Supervisory Board and of the Risk Committee relating to risk management are stated in their respective charters.

Part of the Risk Management Framework is the Risk Appetite Framework. This is the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated and monitored. It includes a Risk Appetite Statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the Risk Appetite Framework. Each year, the bank prepares a Risk Appetite Statement, which sets out the types and degree of risk that the bank is willing to accept, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan. This is subject to a monitoring programme to determine each quarter whether the bank is within the limits of its risk appetite.

In 2018, the bank operated within its risk appetite. For market risk, credit risk and liquidity risk, the limits were respected. With regard to capital, the bank satisfied legally binding supervisory requirements as well its additional internal capital targets. With regard to operational risk, the bank remained within the internal norms for operational incidents. For strategic risk, a dedicated risk analysis was performed, which resulted in increased attention to strategical planning in the fields of digitisation, disintermediation, sourcing and execution power.

Credit risk

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

There has been a slight improvement in the overall credit risk profile of the bank's client portfolio since the end of 2017. Assets under special management have declined in terms of both number and volume. Market developments in some sectors, especially youth care and welfare led to increased awareness. Late in 2018, two hospitals belonging to the same group went bankrupt. The bank did not suffer any losses because of guarantee provided by the healthcare guarantee fund (WfZ).

Brexit in itself is expected to have a limited impact on the business model of BNG Bank. On the asset side, the bank's exposures are limited to a small number of public-sector exposures of investment-grade quality. In addition, BNG Bank does not provide any material cross-border services in the UK. However, the business volume with financial counterparties is substantial, given the bank's policy to hedge market risks on both sides of the balance with derivatives. Most of these counterparties are based in London and clearing activities take place via London Clearing House. The bank prepared for a hard Brexit by onboarding European entities, both for hedging and for clearing.

The implementation of expected credit loss models for IFRS 9 was finalised, documented and externally validated. Moreover, the models were adapted for use in the 2018 EBA Stress Test. In several cases, credit risk policies have been or will be aligned with adopted and upcoming EBA guidelines. Furthermore, the credit assessment framework for zero-risk-weighted counterparties will be strengthened.

Total credit risk exposure

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

	31/12/2018	31/12/2017
Balance sheet total	137,509	140,025
./. Derivatives	–8,390	–8,982
./. Cash collateral posted	–12,043	–13,892
./. Receivables related to STM derivative contracts	–	0
Total on-balance sheet exposure	**117,076**	**117,151**
Total off-balance sheet exposure	**13,706**	**12,782**
Exposure value for derivatives	3,057	3,151
Exposure value for secured financing transactions	7	0
Total counterparty credit risk exposure	**3,064**	**3,151**
Total gross exposure	**133,846**	**133,084**

As at 31 December 2018, the balance sheet value of the loans granted to or guaranteed by public authorities, the WSW Housing guarantee fund and the WfZ Healthcare guarantee fund in the Loans and advances balance sheet item totalled EUR 77.7 billion (2017: EUR 77.7 billion). The contingent liabilities and the irrevocable facilities are explained in the section 'Other notes to the consolidated financial statements'. That section also indicates which parts of the financial assets are not freely disposable.

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

Cumulative changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 288 million negative (2017: EUR 297 million negative) and amounted to EUR 9 million positive over 2018 (2017: EUR 49 million positive). Cumulative changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 11 million positive (2017: EUR 11 million positive) and amounted to EUR 0.5 million negative for 2018 (2017: EUR 21 million negative). Financial liabilities at fair value through the income statement are recognised on the relevant funding curve including a mark-up for 'own credit risk' in the accounts.

Counterparty risk

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

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

Statutory market parties

The bank's Articles of Association restrict lending to parties subject to some form of government involvement. As a result, the credit portfolio is largely comprised of zero risk weighted loans and advances, provided to or guaranteed by the government. In the case of the guarantee funds WSW and WfZ, the credit risk assessment of guaranteed institutions is carried out expressly by the guarantee fund concerned. Additionally, a quantitative assessment of the guaranteed institutions was performed by the bank. BNG Bank actively follows the developments within the sectors in which it operates. This also applies to (the operation of) the institutions issuing the individual guarantees or suretyships. In addition, BNG Bank maintains contacts with relevant parties through a variety of channels, including conferences, seminars and bilateral talks.

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

Credit risk models

Most of BNG Bank's clients do not have an external rating. The bank has an internally developed rating model to assess creditworthiness. Given the 'low default' character of the loan portfolio, expert models are utilised. The models are used for internal assessment of creditworthiness, but not for capital calculations under Pillar I, where the bank uses the Standardised Approach. The Bank employs a number of market sector specific rating models which are subject to periodic review and validation in accordance with the bank's model governance policy.

The significance of the internal ratings is the following:

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

Forborne exposures

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

				31/12/2018
		OF WHICH: FORBORNE		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
Financial assets (excl. Derivatives)				
Cash and balances held with central banks	1,587	–	–	0.0%
Amounts due from banks	82	–	–	0.0%
Cash collateral posted	12,043	–	–	0.0%
Financial assets at fair value through the income statement	1,606	–	–	0.0%
Financial assets at fair value through other comprehensive income	9,648	–	–	0.0%
Interest-bearing securities at AC	7,406	–	–	0.0%
Loans and advances	85,034	348	325	0.4%
	117,406	**348**	**325**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	32	–	–	0.0%
Revocable facilities	6,050	0	0	0.0%
Irrevocable facilities	7,624	–	–	0.0%
	13,706	**0**	**0**	**0.0%**

				31/12/2017
		OF WHICH: FORBORNE		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
Financial assets (excl. Derivatives)				
Cash and balances held with central banks	2,996	–	–	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%
	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%
	12,782	**2**	**2**	**0.0%**

The financial assets of which contractual terms have been changed as a result of the debtor's unfavourable financial position amounted to EUR 348 million as at 31 December 2018 (year-end 2017: EUR 242 million). The share of forborne exposure in the total portfolio is 0.27% (year-end 2017: 0.18%) and concerns 7 debtors (year-end 2017: 4 debtors). Forbearance is used as a backstop indicator in the impairment staging assessment, as a result of which all forborne exposures are classified in impairment stage 2.

Non-performing or credit-impaired exposures

Please refer to Note 41 (Impairment of financial assets and off-balance sheet commitments) for disclosure of BNG Bank's definition of non-performing or credit-impaired exposures. An exposure classified as non-performing or credit-impaired can once again be regarded as performing (i.e. not credit-impaired) 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.

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

				31/12/2018
		OF WHICH: CREDIT-IMPAIRED		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
Financial assets (excl. Derivatives)				
Cash and balances held with central banks	1,587	–	–	0.0%
Amounts due from banks	82	–	–	0.0%
Cash collateral posted	12,043	–	–	0.0%
Financial assets at fair value through the income statement	1,606	–	–	0.0%
Financial assets at fair value through other comprehensive income	9,648	–	–	0.0%
Interest-bearing securities at amortised cost	7,406	–	–	0.0%
Loans and advances	85,034	57	41	0.0%
	117,406	**57**	**41**	**0.0%**
Off-balance sheet commitments				
Contingent liabilities	32	–	–	0.0%
Revocable facilities	6,050	–	–	0.0%
Irrevocable facilities	7,624	–	–	0.0%
	13,706	**-**	**-**	**0.0%**

				31/12/2017
		OF WHICH: CREDIT-IMPAIRED		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
Financial assets (excl. Derivatives)				
Cash and balances held 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%
	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%
	12,782	**-**	**-**	**0.0%**

Credit-impaired exposure totalled EUR 57 million as at 31 December 2018 (year-end 2017: EUR 52 million). The share of credit-impaired exposure in the total portfolio is 0.04% (year-end 2017: 0.04%) and concerns 9 debtors (year-end 2017: 9 debtors). BNG Bank has received government guarantees totalling EUR 27 million (2017: EUR 1 million) with respect to credit-impaired exposures.

The following table shows the development of credit-impaired exposures.

	2018	2017
Total credit-impaired exposure as at 1 January	**52**	**154**
Increase in existing credit-impaired exposures	3	–
Shift from performing to credit-impaired exposure	23	12
Shift from credit-impaired to performing exposure	–	–
Repayments on and settlement of credit-impaired exposure	–21	–114
Total credit-impaired exposure as at 31 December	**57**	**52**

Maturity analysis of performing past due exposures

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

	31/12/2018	31/12/2017
Less than 31 days	0	1
31 through 60 days	–	–
61 through 90 days	–	–
Over 90 days	–	3
Closing balance	**0**	**4**

Impairments

The impairments of financial assets are explained in note 41.

External rating

BNG Bank uses the external ratings awarded by rating agencies, specifically S&P, Moody's, Fitch and DBRS. In determining the capital requirement, the bank uses the ratings of these four agencies if such ratings are available. Where possible, this applies to exposures to financial counterparties and investments in listed securities. The ratings relate either to the counterparty or specifically to a securities purchased.

Financial counterparties

The market risks associated with loans to clients are mitigated primarily through derivative transactions with financial counterparties. The bank only conducts business with financial counterparties that have been rated by an external agency. Financial counterparties are periodically assessed for creditworthiness. This analysis includes an assessment of the internal rating. A limit is subsequently set or adjusted accordingly.

	31/12/2018			31/12/2017		
	MTM VALUE	ADD-ON	TOTAL	MTM VALUE	ADD-ON	TOTAL
Credit equivalents of derivatives on the asset side of the balance sheet						
Interest contracts	1,433	735	2,168	1,411	833	2,244
Currency contracts	13	873	886	9	898	907
Total	**1,446**	**1,608**	**3,054**	**1,420**	**1,731**	**3,151**

At year-end 2018, the risk-weighted credit equivalent of the derivatives portfolio totalled EUR 1,189 million (2017: EUR 1,327 million).

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

			31/12/2018
	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	8,801	–19,634	**-10,833**
Gross value of the financial assets and liabilities to be netted	–411	411	-
Balance sheet value of financial assets and liabilities (after netting)	**8,390**	**-19,223**	**-10,833**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	–7,022	7,022	-
Exposure before collateral	**1,368**	**-12,201**	**-10,833**
Value of financial collateral that does not comply with IAS 32 for netting purposes	–414	12,038	**11,624**
Net exposure	**954**	**-163**	**791**

			31/12/2017
	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	9,323	–22,211	**-12,888**
Gross value of the financial assets and 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 year-end 2018, the collateral posted for derivative transactions amounted to EUR 12.0 billion (2017: EUR 14.3 billion). The deterioration of BNG Bank's rating by three notches would increase this amount by EUR 10 million (2017: EUR 10 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in collateral obligations.

Investments in interest-bearing securities (IBS)

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

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

							31/12/2018
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Liquidity portfolio							
Level I – Government/ Supranational	5,618	2,290	220	195	46	8,369	9,664
Level I B – Covered bonds	1,121					1,121	1,177
Level II A – Government/ Supranational		56			2	58	91
Level II B – Corporates			25			25	25
Level II B – RMBS	1,488					1,488	1,496
	8,227	**2,346**	**245**	**195**	**48**	**11,061**	**12,453**
Alm portfolio							
RMBS	23	245	275	7	37	587	583
ABS		64	140	30	57	291	288
RMBS-NHG	2,285	103	181			2,569	2,569
Other	376	388	422	256	78	1,520	2,108
	2,684	**800**	**1,018**	**293**	**172**	**4,967**	**5,548**
Total	**10,911**	**3,146**	**1,263**	**488**	**220**	**16,028**	**18,001**

	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
							31/12/2017
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
RMBS-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**

The liquidity portfolio has increased and improved in quality mainly due to investments in Government bonds with a better rating. The ALM portfolio also increased due to the purchase of high rated NHG securities.

Transfer of financial assets without derecognition

At year-end 2018 and 2017, BNG Bank had transferred no interest-bearing securities in repurchase transactions without derecognition. At year-end 2018, BNG Bank has no financial assets in its portfolio that were transferred and derecognised and in which it has a continuing involvement. Financial assets are not removed from the balance sheet if BNG Bank retains the credit risks and the rights to the underlying cash flows.

Concentration risk

Regarding concentration risk, the bank differentiates between:
- country risk with a distinction between domestic and foreign risk;
- sector risk;
- risk for individual parties with a distinction between clients and financial counterparties.

Sector specific policies, annual internal targets and maximum exposure amounts on individual counterparties are applied to manage the concentrations risks on sectors and individual parties. A considerable portion of the total outstanding is indirectly related to public sector property. However, these risks are generally mitigated by government guarantees on lending and by the WSW and WfZ guarantee funds. These guarantees result in a concentration risk in relation to public authorities and guarantee funds. The guarantee funds are guaranteed by the central government via backstop constructions. What results on balance is therefore a risk in relation to the Dutch State. The concentration of this risk is high, but inextricably linked to BNG Bank's business model.

The bank is exposed to foreign country risk as a result of transactions with financial counterparties to hedge market risks arising from lending and funding activities, as a result of its liquidity portfolio and, to a limited extent, in the context of lending and investments in the public sector abroad. The bank invests in foreign securities for its liquidity portfolio because the vast majority of its loan portfolio already relates to the Netherlands. Foreign lending is in most cases also directly or indirectly guaranteed by the relevant governments.

All foreign exposures fall within limits set for each country. These limits mainly depend on the perceived credit quality of the country in question. Moreover, a general limit of 15% of the balance sheet total applies to foreign exposures excluding derivatives, collateral and short term loans and current account balances due from banks. Because the creditworthiness of certain countries in the Eurozone deteriorated, the bank has gradually reduced its positions in these countries. This was mainly realised by expiration of exposures.

Long-term foreign exposure

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

31/12/2018	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
IFRS 9							
Supranational institutions	369	155				524	543
Multilateral development banks	741					741	802
Austria		554				554	628
Belgium		350		140		490	589
Denmark		90				90	91
Finland		500				500	577
France	473	681	100	5		1,259	1,528
Germany	1,342	30	70			1,442	1,760
Italy		27	25	195	67	314	325
Portugal			89	58	100	247	253
Spain	70	238	443		83	834	925
Switzerland			99			99	113
United Kingdom	636	349	281	273	34	1,573	2,146
United States	22					22	22
Total	**3,653**	**2,974**	**1,107**	**671**	**284**	**8,689**	**10,302**

31/12/2017	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
IAS 39							
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**

The non-investment grade items (i.e. items with a rating below BBB-) mainly consist of exposures in so-called GIIPS countries. This largely concerns interest-bearing securities, including Covered bonds and RMBS transactions. The non-investment grade exposure in France and the United Kingdom concerns a limited number of private project financing schemes in the areas of infrastructure, education, energy and healthcare. The total fair value of foreign non-investment grade exposures in December 2018 amounted to EUR 289 million (year-end 2017: EUR 474 million).

Individual statutory market parties

For non-zero risk weighted parties, the exposures have to adhere to the Large Exposure Regulation under CRR. The bank has a significantly more conservative approach regarding the maximum size of individual exposures. This further limitation takes into account the degree to which sectors are anchored in the public sector. The party's individual rating is a further criterium for limit setting.

Individual financial counterparties

Transactions with financial counterparties primarily consist of interest rate and currency swaps undertaken to mitigate market risks. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it is willing to transact, taking into account the nature of the business conducted with that party. This limits the number of available parties. As a consequence, the number of transactions with approved parties is high. Daily exchange of collateral helps to mitigate the credit risk with respect to derivatives. A bankruptcy of a counterparty would result in market risks as the market is subject to fluctuations while the derivatives need to be rearranged with another party. The Financial Counterparties Committee limits and monitors positions with financial counterparties.

BNG Bank clears parts of its derivatives centrally via London Clearing House. The bank uses five clearing members for this purpose. Since these clearing members are all based in the UK, towards the end of 2018 the bank onboarded a central clearing party in the EU and was in the process of onboarding additional EU based clearing members. Central clearing has inevitably resulted in a shift in concentration risk from individual financial counterparties to the clearing members and the clearing house.

Market risk

Definitions

Market risk is defined as an existing or future threat to the institution's capital and earnings as a result of market price fluctuations. It includes interest rate risk, foreign exchange risk, volatility risk, spread risk and index risk.

The Treasury and Capital Markets directorate is the 'first line of defence' and responsible for day-to-day market risk management. This department is responsible for hedging the market risks resulting from commercial activities. Additionally, Treasury has a mandate to adopt an interest rate risk position within the limits imposed by the Asset & Liability Committee (ALCO). Risk Management is the 'second line of defence' and responsible for the independent monitoring of market risk and checks daily whether the risk positions are within their limits set by the ALCO.

Interest rate risk

The bank's most important interest rate risk is the 'outright risk' to the interest rate swap curve, which is determined excluding the impact of spreads. This means that changes in spreads, such as credit spreads, CVA/DVA and cross currency basis spreads do not influence the interest rate risk position and hedging. There is no material presence of early redemption options in BNG Bank's regular loan portfolio. Likewise, there is no material exposure in mortgages and the bank does not attract savings from private individuals. Consequently, there is no necessity to model client behaviour in its interest rate risk models.

Because of an expected rise in interest rates, the interest rate position, measured in basis point sensitivity, was lower throughout the year in comparison to the long-term benchmark applied by the bank. The actual interest rate risk position took into account that the likelihood of an additional return in terms of market value due to a stable trend or further decline in interest rates did not sufficiently compensate for the possibly much larger loss of market value if interest rates would rise.

Regarding its market risk framework, the bank improved the measures for calculating the impact of the active interest rate position such that more insight is gained in the impact of this active position. At the end of 2017 a model validation was done on the Earnings at Risk and interest rate stress testing tooling. Most of the resulting recommendations were solved in 2018. This also resulted in an update of the methodology for determining the interest rate stress testing parameters used within the framework.

The limits with respect to interest rate risk were not breached in 2018. The table below outlines the Earnings at Risk effect of a minus 180 basis points gradual parallel interest rate decrease for the 1-year and 2-year horizon at the end of 2018 versus 2017.

	2018	2017
Earnings at risk		
(in EUR million)		
Horizon		
1 year	-24	-16
2 years	-84	-86

Volatility risk

In managing its interest rate risk exposure, the bank allows itself a very limited range for assuming volatility risk to support the active interest rate position. This range is limited and monitored by the Risk Management department on a daily basis. During 2018 no additional volatility risk was assumed to support the active interest rate position.

With regard to its other activities, BNG Bank's policy specifies that the volatility risks for new financial instruments should be hedged one-on-one, if hedging is possible and cost efficient. The resulting volatility risk is relatively small and is subject to monitoring by Risk Management.

In 2018 Risk Management investigated the volatility risk position of the bank, which confirmed that, apart from a small legacy exposure, the volatility risk resulting from adverse movements in market risks was indeed limited.

Spread risk

The economic value of BNG Bank's equity is determined over its total portfolio of assets and liabilities. Both assets and liabilities are valued on the basis of an interest rate curve made up of market-based swap rates plus credit risk spreads. In case of interest rate swaps the CVA risk (counterparty risk) and DVA risk (the bank's own default risk) is included. Spread risk is not hedged by the bank. The impact of changes in these spreads is measured and monitored on a daily basis. For the fair value instruments impacting the profit and loss a warning level on the credit spread delta has been set.

Index risk

The bank has inflation linked instruments in its portfolio. The bank's policy specifies that financial instruments exposed to fluctuations in inflation risk should be hedged in full. The bank executes this policy and monitors the inflation delta on a daily basis.

Liquidity and funding risk

Liquidity risk is defined as the existing or future threat to the institution's capital and earnings due to the possibility that it will not be able at any moment to fulfil its payment obligations, without incurring any unacceptable costs or losses. The public sector consists largely of institutions with a long-term investment horizon. This means that assets frequently have long maturities, which can run into decades. As BNG Bank is unable to raise funding for these maturities, a funding mismatch is accepted, provided there are sufficient buffers to be able to refinance at acceptable cost with a high degree of probability also in times of stress.

The Treasury and Capital Markets directorate is the 'first line of defence' and responsible for the day-to-day liquidity and funding risk management. They are responsible to attract funding. Treasury is mandated to adopt a liquidity risk position within limits and triggers imposed by the ALCO.

The Risk Management department is the 'second line of defence' and responsible for the independent monitoring of liquidity risk and daily checks whether the bank remains within limits and triggers set by the ALCO. Additionally, stress scenarios are used to assess on a monthly basis whether the liquidity and funding is sufficient. The Risk Management department independently reports to the ALCO and to Treasury on the use of predetermined limits, while it also provides risks analyses and advice, both proactively and on request.

The ECB maintained policy interest rates at historically low levels and continued purchasing assets. During 2018 there have also been numerous economic and political factors that have influenced financial markets, such as the imminent Brexit, the escalation of international trade tensions and the election and formation of an Italian populist government. Despite these developments, funding conditions for BNG Bank were still favourable during 2018. BNG Bank was able to operate effectively both on the capital markets and the money markets.

The bulk of the short-term funding needs were addressed by the ECP and USCP Programmes. Next to that, repo funding played a significant part of the short-term funding in 2018. On the liability side the bank is not dependent on the UK capital market as only a relative small amount consists of GBP-funding.

In 2018, new targets on stress scenarios were added on top of the existing combined stress scenario. The scenario analyses is now extended to more types of liquidity stress. Moreover, the modelling of the development of the collateral position is improved such that the treatment of collateral can be better incorporated in the measurement and management of the liquidity position. The monthly liquidity risk information for the ALCO, summarized in a dashboard, was updated incorporating the feedback from the ALCO members.

Liquidity risk

BNG Bank wants to provide a constant and stable presence in the capital markets, because the bank wants to continue to meet the demand for credit even in difficult times. It also pursues a prudent liquidity policy to ensure that it can meet its obligations at all times. In this context, ongoing access to the money and capital markets is essential, along with the ongoing maintenance of attractive, varied and sufficiently large issuance programmes for investors. In addition, buffers are required in order to have access to liquidity in times of stress. One such buffer is formed by assets held explicitly for liquidity purposes, known as the liquidity portfolio. The management of the size and composition of this portfolio is one of the liquidity measures to comply with the requirement under the CRR to have an LCR of at least 100%. BNG Bank also holds an ample quantity of collateral with the ECB, which enables it to obtain short-term funding immediately. Since most of the bank's assets could serve as collateral at the ECB, this collateral may be further extended in the event of prolonged stress. The size of both buffers is tested in the liquidity stress tests, which are monitored on a monthly basis. Furthermore, the funding plan and corresponding planned liquidity gap is tested in an adverse stress scenario for the LCR and NSFR ratios. The bank considers its liquidity management to have been adequate in 2018 and that the strength of the bank's liquidity position is both amply sufficient and in compliance with the regulatory standards and limits set by the ALCO. End of 2018, the LCR ratio amounted to 175% (2017: 207%) and the NSFR ratio amounted to 133% (2017: 130%).

Funding risk

BNG Bank distinguishes between short-term and long-term funding. The majority of funding is from international capital markets. The bank maintains a number of programmes that enables it to have access to funding at all times at competitive levels. The bank pursues proactive investor relations which supports these efforts. The bank has a funding plan, in which the desired funding mix is described in more detail. Part of the funding plan is the annual issuance in benchmark size to maintain a 'BNG curve' in the market. These large-scale issues ensure that the bank has a high profile among investors, allowing it to retain access to investors even in times of market stress. The actual realisation of this desired funding mix or the reason for diverging from it is monitored and evaluated by the ALCO.

Maturity analysis of financial assets and liabilities on the basis of the remaining contractual period

The amounts featured in the table below represent the non-discounted future cash flows of financial assets and liabilities. For the maturity analysis of issued guarantees and irrevocable commitments, see the 'Other notes to the consolidated financial statements' section.

	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	31/12/2018 TOTAL
Cash and balances held with central banks	1,587				1,587
Amounts due from banks	14	10	49	16	89
Cash collateral posted	12,043				12,043
Financial assets at fair value through the income statement	13	41	233	1,898	2,185
Financial assets at fair value through other comprehensive income	101	310	4,285	5,207	9,903
Interest-bearing securities at amortised cost	636	620	2,911	4,147	8,314
Loans and advances	7,514	9,269	35,288	53,149	105,220
Current tax assets		8			8
Other assets	79				79
Total financial assets (excluding derivatives)	**21,987**	**10,258**	**42,766**	**64,417**	**139,428**
Amounts due to banks	-1,794	-81	-97	-467	-2,439
Cash collateral received	-419				-419
Financial liabilities at fair value through the income statement	-2	-5	-190	-702	-899
Debt securities	-9,075	-15,358	-49,691	-41,975	-116,099
Funds entrusted	-2,413	-455	-2,242	-1,127	-6,237
Subordinated debt	-1		-23	-22	-46
Other liabilities	-74				-74
Total financial liabilities (excluding derivatives)	**-13,778**	**-15,899**	**-52,243**	**-44,293**	**-126,213**
Gross balanced derivatives					
Assets amounts receivable	3,294	5,943	21,089	18,774	49,100
Assets amounts payable	-2,572	-4,226	-15,910	-12,552	-35,260
Derivatives stated as assets	**722**	**1,717**	**5,179**	**6,222**	**13,840**
Liabilities amounts receivable	6,169	4,163	11,260	13,515	35,107
Liabilities amounts payable	-7,290	-5,805	-17,925	-23,444	-54,464
Derivatives stated as liabilities	**-1,121**	**-1,642**	**-6,665**	**-9,929**	**-19,357**
Grand total	**7,810**	**-5,566**	**-10,963**	**16,417**	**7,698**

					31/12/2017
	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	2,996				2,996
Amounts due from banks	4	74	26	3	107
Cash collateral posted	13,896				13,896
Financial assets at fair value through the income statement	17	67	383	2,204	2,671
Financial assets available-for-sale	224	410	5,202	9,382	15,218
Loans and advances	6,338	9,070	35,827	56,146	107,381
Other assets	18	1			19
Assets held for sale		30			30
Total financial assets (excluding derivatives)	**23,493**	**9,652**	**41,438**	**67,735**	**142,318**
Amounts due to banks	-1,534	-164	-92	-334	-2,124
Cash collateral received	-369				-369
Financial liabilities at fair value through the income statement	-26	-168	-196	-716	-1,106
Current tax liability		-17			-17
Debt securities	-9,082	-17,413	-48,125	-41,446	-116,066
Funds entrusted	-1,949	-191	-2,528	-1,255	-5,923
Subordinated debt	-1		-3	-43	-47
Other liabilities		-43			-43
Total financial liabilities (excluding derivatives)	**-12,961**	**-17,996**	**-50,944**	**-43,794**	**-125,695**
Gross balanced derivatives					
Assets amounts receivable	3,708	4,384	11,519	19,874	39,485
Assets amounts payable	-3,081	-2,786	-6,846	-13,198	-25,911
Derivatives stated as assets	**627**	**1,598**	**4,673**	**6,676**	**13,574**
Liabilities amounts receivable	7,295	11,455	21,291	14,987	55,028
Liabilities amounts payable	-8,053	-13,603	-29,409	-25,502	-76,567
Derivatives stated as liabilities	**-758**	**-2,148**	**-8,118**	**-10,515**	**-21,539**
Grand total	**10,401**	**-8,894**	**-12,951**	**20,102**	**8,658**

Encumbered and unencumbered financial assets

Encumbered financial assets are not freely disposable to meet liquidity needs in the short term. The following table shows the balance-sheet values of the assets, broken down into encumbered (not freely available) and unencumbered (freely available) assets.

			31/12/2018
	ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances held with central banks	–	1,587	1,587
Amounts due from banks	–	82	82
Cash collateral posted	12,043	–	12,043
Financial assets at fair value through the income statement	–	1,606	1,606
Derivatives	–	8,390	8,390
Financial assets at fair value through other comprehensive income	4,621	5,027	9,648
Interest-bearing at amortised cost	851	6,555	7,406
Loans and advances	399	84,635	85,034
Value adjustments on loans in portfolio hedge accounting	–	11,566	11,566
Assets held for sale	–	–	–
Non-financial assets	–	147	147
Total	**17,913**	**119,596**	**137,509**
Average (total) in 2018	**20,159**	**130,439**	**150,598**

			31/12/2017
	ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances held with central banks	–	2,996	2,996
Amounts due from banks	–	105	105
Cash collateral posted	13,892	–	13,892
Financial assets at fair value through the income statement	–	2,006	2,006
Derivatives	–	8,982	8,982
Financial assets available-for-sale	357	13,753	14,110
Loans and advances	482	85,526	86,008
Value adjustments on loans in portfolio hedge accounting	–	11,813	11,813
Assets held for sale	–	30	30
Non-financial assets	–	83	83
Total	**14,731**	**125,294**	**140,025**
Average (total) in 2017	**15,875**	**136,528**	**152,403**

Operational and strategic risk

Operational risk

Operational risk relates to shortcomings of internal processes and consequences of external events. In addition to general operational risk, operational risk comprises ICT-, data quality-, outsourcing-, integrity- and legal risks.

Operational risk is inherent in operating a business. BNG Bank accepts that providing tailored services entails additional inherent operational risks. In addition to lending, BNG Bank also provides its clients with other products, such as current account and payment transaction services. Clients benefit from this broader range of services. The bank is willing to accept operational risks also for these additional products, provided they fit with our mission.

Strategic risk

Strategic risk is defined as the risk that strategic decisions of the institution itself could result in losses and/or the chance of losses as a result of changes beyond the control of the institution or group in the area of the bank's competitive position, the political climate, regulatory developments, reputation and business climate.

In the case of strategic risk, it is more difficult to determine the extent to which risks are assumed, since they are driven by external factors in particular and hence are less easily influenced. However, the bank needs to address the risks that emerge from changes in its environment. Given its close ties to the Dutch public sector, its sensitivity to government policy and its status as a promotional bank, political risk and regulatory risk are important elements. To monitor and mitigate these risks, the bank is permanently in close contact with its stakeholders. Also, it observes and analyses the regulatory processes and participates in several banking associations.

Capital and solvency

Definitions

Regulatory capital relates to the capital requirements under the Capital Requirements Directive IV. For regulatory purposes the capital requirement is based on the Pillar 1 requirement for the aggregated risk-weighted assets (RWA) for the three major risk types (credit, operational and market risk). This requirement is supplemented by the so-called combined buffer requirement (CBR) and a Pillar 2 requirement (P2R). The CBR consists of a capital conservation buffer, a systemic risk buffer, a countercyclical buffer and a systemic relevance buffer. The P2R is an institutional specific requirement stemming from the Supervisor Review and Evaluation Process (SREP) conducted by the supervisor. The P2R covers risks underestimated or not covered by Pillar 1. BNG Bank employs the 'Standardised Approach' to calculate the RWAs.

In addition to the regulatory required capital BNG Bank calculates economic capital (EC) for Pillar 2 purposes. Economic capital covers all risks in our risk taxonomy, for which capital is deemed to be the mitigating instrument to cover unexpected losses. It is used for internal risk measurement and management. It is the amount of capital the bank deems adequate to pursue its strategy and which achieve a sufficient level of protection against large unexpected losses that could result from extreme market conditions or events.

Governance

The Executive Board is responsible for determining the policy with respect to capital. This is laid down in a capital adequacy statement and management plan. Next, the Executive Board is responsible for the allocation of capital. Decision making is prepared by the Capital Policy and Financial Regulations Committee. This committee comprises all relevant stakeholders: the Executive Board, Public Finance, Treasury, Capital Management, Risk Management and Finance and Control.

Developments

As at December 2018, the fully phased-in CRD IV Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were respectively 32%, 38% and 38%. All capital ratios were well above regulatory minimum requirements.

BNG Bank is required in 2019 to meet a minimum CET1 ratio of 10.25%, composed of a SREP requirement of 6.75% (4.5% Pillar 1 requirement and 2.25% Pillar 2 requirement), a phased-in systemic risk buffer (SrB) of 1.00% and a capital conservation buffer (CCB) of 2.50%. BNG Bank amply meets the requirements. The Maximum Distributible Amount (MDA) trigger level for BNG Bank is 10.25% of CET1 capital.

In 2011, BNG Bank lowered its dividend distribution policy to 25% in order to meet the additional capital requirements introduced by Basel III. Given that clarity on the capital requirements is still pending BNG Bank is not changing this policy now, but expects to update it in 2019.

Capital management

The primary objective of the capital management strategy is to ensure that internal as well as external capital adequacy requirements are met at all times and sufficient capital is available to support the bank's strategy.

The capital management strategy builds on the bank's risk appetite and its business plans. Besides, expectations and requirements of external stakeholders (e.g. regulators, investors, rating agencies, shareholders), the bank's capitalization relative to the market, market developments and the feasibility of capital management actions are taken into account. The capitalization policy is incorporated in the so-called Internal Capital Adequacy Assessment Process (ICAAP). Key to this policy is the capital management plan, which determines the level and composition of the capital based on the risks to be insured by that capital. In the ICAAP, regulatory as well as economic capital is taken into account. As part of the ICAAP a number of stress scenarios is executed in order to determine the adequacy and robustness of the capitalization. Next to the level of capitalization, the ICAAP determines the allocation per relevant type of risk.

On an ongoing basis, capital adequacy is measured and monitored against target capital ratios. These target levels are derived from the bank's risk appetite and strategy and quantified by the ICAAP. The allocation is derived from the ICAAP. This process ensures that the bank is operating in line with its risk appetite.

Capital structure

BNG Bank's capitalization is well above the capital requirements laid down in the Capital Requirements Directive IV (CRD IV). The capital structure consists mainly of common equity. The other part consists of Additional Tier 1 instruments.

The two tables on the next pages show the structure of the regulatory capital. The tables present the capital in the transitional situation (2017) and the fully phased-in capital (2018).

	31/12/2018	
	CAPITAL FULLY PHASED IN	IFRS EQUITY
Paid-up capital	139	139
Share premium	6	6
Retained earnings from previous years	3,410	3,410
Unappropriated profit		337
Accumulated other comprehensive income		
– Cash flow hedge reserve	10	10
– Cost of hedging	222	222
– Own credit adjustment	9	9
– Revaluation reserve	125	125
Common equity Tier 1 (CET1) capital before regulatory adjustments	**3,921**	**4,258**
Adjustments to CET1 capital as a result of prudential filters:		
– Cash flow hedge reserve	–10	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	–2	
– Own credit risk for Financial liabilities at fair value through the income statement	–9	
– Value adjustments due to the prudential valuation requirements	–5	
– Intangible assets	–3	
– Expected credit loss allowance of Financial assets at fair value through OCI	–1	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	–10	
CET1 capital	**3,881**	
Additional Tier 1 capital:	733	733
Tier 1 capital	**4,614**	
Total equity	**4,614**	**4,991**

	31/12/2017		
	CAPITAL (TRANSI-TIONAL)	CAPITAL FULLY PHASED IN	IFRS EQUITY
Paid-up capital	139	139	139
Share premium	6	6	6
Retained earnings from previous years	3,221	3,221	3,221
Unappropriated profit			393
Accumulated other comprehensive income			
– Cash flow hedge reserve	193	193	193
– Revaluation reserve	268	268	268
Common equity Tier 1 (CET1) capital before regulatory adjustments	**3,827**	**3,827**	**4,220**
Adjustments to CET1 capital as a result of prudential filters:			
– Cash flow hedge reserve	–193	–193	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	–6	–6	
– Own credit risk for Financial liabilities at fair value through the income statement	–9	–9	
– Value adjustments due to the prudential valuation requirements	–8	–8	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	–25	–25	
Transitional adjustments to CET1 capital:			
– Intangible assets	–2	–2	
– 20% of the revaluation reserve related to Financial assets available-for-sale	–51	–	
CET1 capital	**3,533**	**3,584**	
Additional Tier 1 capital:	733	733	733
Tier 1 capital	**4,266**	**4,317**	
Total equity			**4,953**

Prudential filters

BNG Bank applies the following prudential filters to the CET1 capital:

- The cash flow hedge reserve is eliminated.
- The benefits arising from own credit risk (DVA) in derivatives transactions are eliminated.
- The benefits arising from 'own credit risk' in relation to obligations classified as Financial liabilities at fair value through the income statement are eliminated.
- Due to the regulations on prudent valuation, an adjustment is calculated in relation to the balance sheet valuation of assets and liabilities that are carried at fair value.

- The investments in the development of software is activated and amortised over three years. After a correction for 'deferred tax', the total of these intangible assets is deducted.
- The expected credit loss allowance of Financial assets at fair value through OCI.

Deductible items

BNG Bank opts to reduce the CET1 capital by securitisation positions that are eligible for 1250% solvency weighting.

Adjustments in CRD IV/CRR transition phase

The portion of the revaluation reserve related to Financial assets at fair value through OCI included in the CET1 capital is 100% in 2018 and the portion of the revaluation reserve related to Financial assets available-for-sale was 80% in 2017.

Additional Tier 1 capital

For a clarification, please refer to note 24 of the Notes to items of the consolidated financial statements.

Reclassifications of financial assets available-for-sale (IAS 39)

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

At the time of reclassification in 2008, the bank anticipated that all future cash flows would be received. The calculation of the effective interest rate is based on the original cash flows. The effective interest rates of these reclassified assets have a weighted average of 5.3% and range from 4.6% to 5.8%. The unrealised changes in value in the revaluation reserve are presented after tax.

			31/12/2017
	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Balance sheet value as at 31/12/2017			
Financial assets available-for-sale	14,110	15,056	–946
Amounts due from banks	13,997	13,904	93
Loans and advances	86,008	85,177	831
Equity	4,953	4,970	–17
– of which revaluation reserve	268	285	–17

		31/12/2017
	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION
Reclassified assets as at 31/12/2017		
Balance sheet value	924	946
Fair value	946	946
Total unrealised market value changes in equity	47	30

Realised and unrealised results from reclassified transactions

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	TOTAL
– Movement in unrealised market value changes in equity with reclassification	130	–6	22	15	20	24	24	27	25	–201	**80**
– Movement in unrealised market value changes in equity without reclassification	104	36	–7	199	40	106	–86	–9	153	–473	**63**
– Interest revenue	14	30	38	42	45	62	88	82	120	276	**797**
– Realised sales results	–4	1	0	–	0	0	–	–4	–3	–	**–10**
Total realised results in the income statement	**10**	**31**	**38**	**42**	**45**	**62**	**88**	**78**	**117**	**276**	**787**

These reclassifications are not applicable under IFRS 9.

Other notes

Related parties

Transactions with related parties

Entities with control, joint control or significant influence over BNG Bank

The State of the Netherlands owns 50% of the shares and voting rights of BNG Bank. As the other half of the shares is divided between a large number of shareholders, the State of the Netherlands has de facto control over BNG Bank. The holders of hybrid capital do not fall within the definition of related parties, as they have no (joint) control or significant influence over BNG Bank. BNG Bank has direct exposure to the State of the Netherlands in the form of purchased, publicly tradable government securities. The bank also has a large portfolio of loans and advances with direct guarantees from the State, or with guarantees from the WSW (social housing) and WFZ (Healthcare) guarantee funds, for which the State of the Netherlands acts as a backstop. In all cases, this concerns private lending.

Subsidiaries

This relates to the BNG Bank subsidiaries Hypotheekfonds voor Overheidspersoneel and BNG Gebiedsontwikkeling included in the consolidation. BNG Bank has intercompany transactions with these parties, which consist of the issue of private loans and advances, credit balances held in current accounts and off-balance sheet commitments. All of these intercompany transactions are eliminated from the figures in and notes to the consolidated financial statements.

Associates, joint ventures and joint operations

This relates to associates, as well as joint ventures and joint operations entered into by BNG Gebiedsontwikkeling. A list of these parties is provided in a separate note in these financial statements. Transactions with these contacts consist of loans and advances, credit balances held in current accounts and off-balance sheet commitments (the undrawn portions of credit facilities).

Executive board members of the bank

BNG Bank has not granted any loans, advance payments or guarantees to individual members of the Executive Board or Supervisory Board of BNG Bank.

	31/12/2018	31/12/2017
State of the Netherlands		
Direct exposure in the form of purchased government securities	1,936	1,966
Lending with direct guarantees from the State	667	726
Lending with indirect guarantees from the State (WSW/WFZ)	42,587	42,639
Subsidiaries		
Lending to subsidiaries	127	150
Credit balances held by subsidiaries	8	11
Off-balance sheet commitments to subsidiaries	7	7
Associates, joint ventures and joint operations		
Lending to associates, joint ventures and joint operations	105	89
Credit balances held by associates, joint ventures and joint operations	19	7
Off-balance sheet commitments to associates, joint ventures and joint operations	31	49

As at 31 December 2017, former member of the executive board Mr C. van Eykelenburg had a mortgage of EUR 696,226 at an average rate of 4.3%.

BNG Bank's principal decision-making bodies

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

Remuneration

BNG Bank's remuneration policy consists of fixed and variable remuneration components. The total remuneration granted to 'Identified Staff', i.e. individuals with direct influence on the bank's policy and risks, was EUR 5 million in 2018 (2017: EUR 6 million). The Identified Staff consisted of 30 individuals in 2018 (2017: 31). In the case of 23 of these individuals (2017: two) a part of the variable remuneration was conditional. Following reassessment, for the executive board members this portion will be paid after three years unless the achievement of the associated targets is found to have jeopardised BNG Bank's long-term continuity. In case the Identified Staff is granted an amount of variable remuneration exceeding a monthly salary or EUR 10,000 or both, 40% of the variable remuneration will be deferred over a three year period. Annually, one third of the deferred amount will be granted. This way, there is a justified difference with the deferred variable remuneration of the Managing Board members (50% at once and 50% after four years), who have more influence on the risk profile than the Identified Staff. Since 2016, the variable remuneration component has been subject to a maximum of 20% of the fixed salary for all bank employees. No employee received a total remuneration exceeding EUR 1 million in 2018 (2017: none).

The remuneration of the identified staff can be divided into three groups: Executive Board members, senior management directly reporting to Executive Board members and other identified staff.

Amounts in thousands of euros	2018			2017		
	FIXED REMUNERATION	VARIABLE REMUNERATION	TOTAL	FIXED REMUNERATION	VARIABLE REMUNERATION	TOTAL
Executive board members	993	90	1,083	1,140	74	1,214
Senior management	2,214	64	2,278	2,000	160	2,160
Other identified staff	1,612	71	1,683	1,961	199	2,160
Total	**4,819**	**225**	**5,044**	**5,101**	**433**	**5,534**

In addition, the bank pays a monthly employer's pension contribution. Since 1 January 2015, pension accrual over salary in excess of EUR 100,000 is no longer possible under the current ABP pension plan. This means that pension accrual is capped at a pensionable income of EUR 100.000. As a consequence of this cap for tax purposes and the lower pension accrual, BNG Bank decided to compensate the employees concerned who were in the bank's employment on 1 January 2015 for lower pension accrual.

Remuneration of the executive board

The remuneration of the Executive Board is based on the principles formulated in the Remuneration Policy, the highlights of which are included in the Report of the Supervisory Board. The complete Remuneration Policy is published on bngbank.nl. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the general Collective Labour Agreement for the banking industry. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank. Effective from 1 January 2019, BNG Bank has ended the variable remuneration of Executive Board members. Only the deferred variable remuneration of Executive Board members in previous years can be paid out in the coming years.

Remuneration awarded to executive board members

Amounts in thousands of euros

	Fixed remuneration		Variable remuneration		Compensation for pension accrual over salary >100K		Pension contributions	
	2018	2017	2018**	2017*	2018	2017	2018	2017
G.J. Salden	301	–	–	–	–	–	24	–
O.J. Labe	325	321	–	–	29	29	24	23
J.C. Reichardt	367	362	90	33	35	35	26	25
C. van Eykelenburg (until 31-12-2017)	–	457	–	41	–	114	–	21
Total	**993**	**1,140**	**90**	**74**	**64**	**178**	**74**	**69**

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

** This amount of EUR 90 thousand concerns a one-off payment regarding the discontinuation of the variable remuneration. With this one-off payment Mr Reichardt's contractual right to future variable remuneration has been bought off.

Deferred variable remuneration

Amounts in thousands of euros

	2018	2017	2016	2015*
J.C. Reichardt	–	33	32	36

Deferred variable remuneration of former executive board members

Amounts in thousands of euros

	2018	2017	2016	2015*
C. van Eykelenburg	–	41	40	54
J.J.A. Leenaars	–	–	–	12

* The Supervisory Board has established that the achievement of the associated qualitative and quantitative targets set in 2015 have not jeopardized BNG Bank's long-term continuity. The pay out of the deferred conditional variable remuneration for 2015 was in March 2019.

The remuneration awarded in the reporting period is the remuneration which has been recognised as an expense in full in the income statement. The income statement for 2018 includes EUR 1 million (2017: EUR 1 million) in remuneration and pension costs. The total short-term remuneration comprises the fixed remuneration, the variable remuneration and the compensation for pension accrual over salary in excess of EUR 100,000.

The Chair of the Executive Board received an allowance for business expenses of EUR 5,100 in 2018 (2017: EUR 3,900). The allowance for the other members of the Executive Board is EUR 3,900 in 2018 (2017: EUR 3,900).

Remuneration of the supervisory board

Effective from 1 January 2017 the remuneration of the Supervisory Board can increase by the same percentage as the increases under the Collective Labour Agreement for the Banking Industry. The total remuneration of the Supervisory Board increased by 1% in 2018 (2017: 2%). The policy is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit Committee & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chair of the Supervisory Board received an allowance in addition to the basic remuneration. These allowances are set out in the 'Remuneration of Supervisory Board members' statement. The Supervisory Board members received an expense allowance of EUR 1,000 (2017: EUR 1,000). Members who sat on one or more committees received an additional expense allowance per committee of EUR 500 (Audit Committee and Risk Committee) and EUR 250 (Remuneration Committee and Human Resource Committee), respectively. Former Supervisory Board members received no remuneration.

Remuneration of supervisory board members

The amounts presented below are in thousands of euros. These figures include additional payments and expense allowances and exclude VAT.

	2018	2017
Ms M. Sint, Chair	47	46
J.J. Nooitgedagt, Vice-chair and Secretary	39	38
C.J. Beuving	36	35
L.M.M. Bolsius (until 20 April 2018)	9	25
T.J.F.M. Bovens	26	25
J.B.S. Conijn	32	32
Ms M.E.R. van Elst (from 1 March 2018)	27	–
Ms P.H.M. Hofsté (until 20 April 2017)	–	13
Ms J. Kriens	29	29
J.C.M. van Rutte	32	32
Total	**277**	**275**

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.

	31/12/2018	31/12/2017
Contingent liabilities	32	78

Revocable facilities

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

	31/12/2018	31/12/2017
Revocable facilities	6,050	5,839

Irrevocable facilities

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

	31/12/2018	31/12/2017
Outline agreements concerning the undrawn part of credit facilities	5,887	5,196
Contracted loans and advances to be distributed in the future	1,737	1,669
Total	**7,624**	**6,865**

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

	31/12/2018	31/12/2017
Up to 3 months	448	340
3 to 12 months	549	446
1 to 5 years	705	846
Over 5 years	35	37
Total	**1,737**	**1,669**

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 1.7% (2017: 1.9%). BNG Bank states these obligations at the underlying, not yet recorded, principal amount.

Encumbered financial assets and liabilities

A part of the financial assets and liabilities is encumbered because these assets serve to secure and act as collateral for money market transactions and lending transactions. The following table shows the nominal sheet values and the collateral values.

	31/12/2018		31/12/2017	
	NOMINAL VALUE	COLLATERAL VALUE	NOMINAL VALUE	COLLATERAL VALUE
Type of collateral				
Collateral pledged to the central bank*	14,203	9,635	14,520	9,769
Securities provided in derivatives transactions	4,566	5,472	343	434
Cash deposited in relation to derivatives transactions	12,046	12,043	13,896	13,892
Given as collateral	**30,815**	**27,150**	**28,759**	**24,095**
Securities received in derivatives transactions	0	0	0	0
Cash received in relation to derivatives transactions	419	419	369	369
Received as collateral	**419**	**419**	**369**	**369**
Total	**30,396**	**26,731**	**28,390**	**23,726**

* Of the total value of loans provided as collateral to the central bank, only a limited part has actually been used as collateral. At year-end 2018, the value of the collateral in use under the guarantee for clients' collection files amounted to EUR 399 million (year-end 2017: EUR 412 million).

Liability of board members

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

Events after the balance sheet date

There are no events after the balance sheet date to report that require adjustments to the figures or disclosure in the financial statements.

Long-term capitalisation and dividend policy

The capitalisation and dividend policy will be considered in light of the upcoming changes in prudential regulations that compel banks to retain more capital. The new regulations as well as the current capitalisation, relative to the proposed minimum standards, resulted in the standard dividend pay-out percentage being lowered from 50% to 25% as of the financial year 2011. The lowering of the standard pay-out percentage applies, in principle, to the period until 2018, which is the year in which the bank expected the new minimum leverage ratio to come in charge. The decision making in Europe, however, on this and other solvency and liquidity related issues (known as CRR2/CRDV) is taking more time to be finished. BNG bank's expectation is that the bank's capitalisation in the near future will be sufficient to meet the capital requirement, although the uncertainty concerning the final decision by the European Union remains. The decision is now expected in the first half of 2019. Thereafter BNG Bank will give substance to a renewed capitalisation and dividend policy. In 2017 and 2018, the positive development of level of the leverage ratio raised the opportunity to increase the pay-out percentage to 37.5% in 2017 and 50% in 2018.

Proposed profit appropriation

Amounts in millions of euros

	2018	2017
Net profit	**337**	**393**
Dividend distribution on Hybrid capital	–19	–18
Profit attributable to shareholders	**318**	**375**
Appropriation of profit attributable to the bank's shareholders is as follows:		
Appropriation to the Other reserves pursuant to Article 23(3) of the BNG Bank Articles of Association	32	37
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	39	**44**
Appropriation to the Other reserves pursuant to Article 23(4) of the BNG Bank Articles of Association	127	197
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	152	134
	279	**331**

The profit appropriation is based on the total net profit for 2018. The dividend distribution takes into account the EUR 25 million dividend already paid on the hybrid capital in May 2018 charged to the Other reserves (EUR 19 million after tax).

Associates and joint ventures

	31/12/2018	31/12/2017
Associates		
Dataland BV, Rotterdam	30%	30%
A municipal non-profit initiative that aims to make information on registered properties – as held by municipalities and/or other public entities – available to a wide audience.		
Data B Mailservice Holding BV, Leek	45%	45%
Provision of services to, among others, public sector organisations, ranging from printing and mail services to payment-related, direct marketing and messaging services.		

	31/12/2018	31/12/2017
Joint ventures entered into by BNG Gebiedsontwikkeling BV		
Joint development and allocation of land with public authorities, at own expense and risk. The parties involved in the joint ventures have an equal voting right, which means that no single party has control.		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg CV, Nederweert	50%	50%
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV te Nederweert	50%	50%
Development and allocation of land for industrial estates		
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor	80%	80%
Zenkeldamshoek Beheer BV, Goor	50%	50%
Development and allocation of land for industrial estates		
De Bulders Woningbouw CV	50%	50%
De Bulders Woningbouw BV	50%	50%
Development and allocation of land for industrial estates		

Continued on next page

Continuation of previous page

	31/12/2018	31/12/2017
Ontwikkelingsmaatschappij Westergo CV, Harlingen	50%	50%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' CV, The Hague	50%	50%
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' BV, The Hague	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij ROM-S CV (Schelluinen), The Hague	50%	50%
ROM-S Beheer BV (Schelluinen) te The Hague	50%	50%
Development and allocation of land for industrial estates and car parking facilities		
Project Suijssenwaerde CV, The Hague	80%	80%
Project Suijssenwaerde Beheer BV, The Hague	50%	50%
Development and allocation of land for residential construction and recreational housing		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%
Development and allocation of land for industrial estates		
SGN Bestaand Rijsenhout CV, The Hague	50%	50%
SGN Nieuw Rijsenhout CV, The Hague	50%	50%
SGN Advies CV, The Hague	43%	43%
SGN Bestaand Rijsenhout Beheer BV, The Hague	50%	50%
SGN Nieuw Rijsenhout Beheer BV, The Hague	50%	50%
SGN Advies BV Beheer, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Groep BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		
ROM-D CV, The Haque	11%	11%
ROM-D Beheer NV, The Hague	25%	25%
Development and allocation of land for industrial estates		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		

Continued on next page

Continuation of previous page	31/12/2018	31/12/2017
Regionaal bedrijvenpark Laarakker CV, Cuijk	50%	50%
Regionaal bedrijvenpark Laarakker BV, Cuijk	50%	50%
Development and allocation of land for industrial estates		
Wonen Werken Waterman BV, Rijsbergen	50%	50%
Wonen Werken Waterman CV, Rijsbergen	50%	50%
Development and allocation of land for residential construction and industrial estates		
De Jonge Voorn BV, Guisveld (Zaandam)	80%	80%
De Jonge Voorn CV, Guisveld (Zaandam)	80%	80%
Development and allocation of land for residential construction		

Summarised financial information

	2018	2017
Associates		
Balance sheet value of investment (note 11)	3	3
Value of the share in:		
Total assets	5	4
Total liabilities	1	1
Income	4	9
Result from continued operations	1	1
Equity	3	3
Comprehensive income	2	2

	2018	2017
Joint ventures entered into by BNG Gebiedsontwikkeling BV		
Balance sheet value of investment (note 11)	41	44
Value of the share in:		
Total assets	101	103
Total liabilities	68	61
Income	20	28
Result from continued operations	-1	7
Equity	33	42
Comprehensive income	33	42

BNG Gebiedsontwikkeling (a wholly-owned BNG Bank subsidiary) invests in and develops land on its own account in collaboration with local authorities. This collaboration takes the form of a joint venture involving the use of limited partnerships. The risk incurred by BNG Bank is the total amount of capital invested in the participating interest, increased by further future payments obligations and retained profits. At year-end 2018, this risk amounted to EUR 41 million (2017: EUR 46 million), of which EUR 0 million related to future payment obligations (2017: EUR 2 million). On one hand the year 2018 showed a further improvement of the income from the land sales contributed, on the other hand a few additional impairments were necessary.

Involvement in non-consolidated structured entities

	SECURITISATIONS	COVERED BONDS	2018 TOTAL
Scope	30,159	–	30,159
Involvement in entity (balance sheet value/size in %)	13%	–	13%
Balance sheet value of interest/investment:			
Financial assets at fair value through other comprehensive income (from note 6)	–	–	–
Interest-bearing securities at amortised cost (from note 8)	3,995	–	3,995
Total balance sheet value	**3,995**	**-**	**3,995**
Maximum exposure	3,995	–	3,995
Ratio of balance sheet value vs maximum exposures	1	–	1
Amount in revenue per type:			
Fund return	N/A	N/A	
Management fee	N/A	N/A	
Interest revenue	11	–	11
Results from sales	–8	–	–8
Total revenue	**3**	**-**	**3**
Loss on investment during reporting period:			
Through equity	–	–	–
Through the income statement	0	–	0
Total losses	**0**	**-**	**0**

	SECURITISATIONS	COVERED BONDS	2017 TOTAL
Scope	34,120	1,195	35,315
Involvement in entity (balance sheet value/size in %)	10%	4%	10%
Balance sheet value of interest/investment:			
Financial assets at fair value through the income statement (from note 4)	208	–	208
Financial assets available-for-sale (from note 7)	2,416	–	2,416
Loans and advances (from note 9)	682	50	732
Total balance sheet value	**3,306**	**50**	**3,356**
Maximum exposure	3,306	50	3,356
Ratio of balance sheet value vs maximum exposures	1	1	1
Amount in revenue per type:			
Fund return	N/A	N/A	
Management fee	N/A	N/A	
Interest revenue	11	10	21
Results from sales	1	-2	-1
Total revenue	**12**	**8**	**20**
Loss on investment during reporting period:			
Through equity	–	–	–
Through the income statement	5	–	5
Total losses	**5**	**-**	**5**

Involvement in non-consolidated securitisation and covered bond programmes via structured entities

BNG Bank has investments in securitised interest-bearing securities covered by additional security through non-consolidated structured entities. Mortgage portfolios serve as collateral for the securitisations and covered bonds. The funds invested by investors, including BNG Bank, serve to finance the underlying mortgages. The structured entities are independent entities that do not carry out any activities other than managing investments and the associated money flows. Apart from its interest as an investor in interest-bearing securities, BNG Bank has not financed these structured entities or supported them in any other way, nor does it have any intention to do so in the near future. The bank has not transferred any assets to these structured entities.

The Hague, 15 March 2019

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)
C.J. Beuving
T.J.F.M. Bovens
J.B.S. Conijn
Ms M.E.R. van Elst
Ms J. Kriens
J.C.M. van Rutte

6.2 Company financial statements

Company balance sheet

Amounts in millions of euros

	NOTE	31/12/2018 (IFRS 9)	01/01/2018 (IFRS 9)	31/12/2017 (IAS 39)
Assets				
Cash and balances held with central banks	1	1,587	2,996	2,996
Amounts due from banks	2	82	12	105
Cash collateral posted	3	12,043	13,892	13,892
Financial assets at fair value through the income statement	4	1,606	1,628	2,006
Derivatives	5	8,390	8,978	8,982
Financial assets at fair value through other comprehensive income	6	9,648	10,794	-
Financial assets available-for-sale	7		-	14,110
Interest-bearing securities at amortised cost	8	7,406	5,134	-
Loans and advances	9	85,002	84,611	85,979
Value adjustments on loans in portfolio hedge accounting	10	11,566	11,685	11,813
Associates and joint ventures	11	59	60	60
Property & equipment	12	17	17	17
Current tax assets	19	8	-	-
Other assets	13	79	19	19
Assets held for sale	14	-	30	30
Total assets		**137,493**	**139,856**	**140,009**
Liabilities				
Amounts due to banks	15	2,383	2,079	2,079
Cash collateral received	16	419	369	369
Financial liabilities at fair value through the income statement	17	762	944	944
Derivatives	18	19,223	21,870	21,870
Debt securities	20	103,722	104,323	104,127
Funds entrusted	21	5,786	5,410	5,406
Subordinated debt	22	32	31	31
Current tax liabilities	19	-	16	15
Deferred tax liabilities	19	99	83	173
Other liabilities	23	76	44	42
Total liabilities		**132,502**	**135,169**	**135,056**

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Company balance sheet

Amounts in millions of euros

	NOTE	31/12/2018 (IFRS 9)	01/01/2018 (IFRS 9)	31/12/2017 (IAS 39)
Equity				
Share capital		139	139	139
Share premium reserve		6	6	6
Statutory reserves				
– Revaluation reserve		125	189	259
– Cash flow hedge reserve		10	19	193
– Reserve for fair value increases		83	92	104
Other reserves		3,327	3,478	3,117
Own credit adjustment		9	9	9
Cost of hedging reserve		222	22	–
Net profit		337	–	393
Equity attributable to shareholders	24	**4,258**	**3,954**	**4,220**
Hybrid capital	24	733	733	733
Total equity	24	**4,991**	**4,687**	**4,953**
Total liabilities and equity		**137,493**	**139,856**	**140,009**

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

Company income statement

Amounts in millions of euros

	NOTE	2018		2017	
– Interest revenue calculated using the effective interest method		5,151		5,404	
– Other interest revenue		566		499	
Total interest revenue		5,717		5,903	
– Interest expenses calculated using the effective interest method		5,177		5,316	
– Other interest expenses		107		153	
Total interest expenses		5,284		5,469	
Interest result	25		433		434
– Commission income		30		26	
– Commission expenses		2		3	
Commission result	26		28		23
Result on financial transactions	27		112		180
Results from participating interest	28		1		7
Result from sales of assets held for sale	29		–		–
Total income			**574**		**644**
Staff costs	30		39		42
Other administrative expenses	31		32		25
Depreciation	32		3		2
Total operating expenses			**74**		**69**
Net impairment losses on financial assets	33		–2		–4
Net impairment losses on associates and joint ventures			0		–
Contribution to resolution fund	34		12		9
Bank Levy	34		31		36
Total other expenses			**41**		**41**
Profit before tax			**459**		**534**
Income tax expense			–122		–141
Net profit			**337**		**393**
– of which attributable to the holders of hybrid capital			19		18
– of which attributable to shareholders			318		375

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

Company statement of comprehensive income

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

			2018			2017
Net profit			**337**			**393**
Recyclable results recognised directly in equity						
– Changes in cash flow hedge reserve:						
– Unrealised value changes	-9			232		
– Realised value changes transferred to the income statement	0			-42		
		-9			190	
– Changes in cost of hedging reserve						
– Unrealised value changes	195			-		
– Realised value changes transferred to the income statement	5			-		
		200			-	
– Changes in the revaluation reserve for financial assets at fair value through other comprehensive income						
– Unrealised value changes	-36			-		
– Realised value changes transferred to the income statement	-28			-		
– Impairments through the income statement	0			-		
– Impairments reversed through the income statement	0			-		
		-64			-	
– Changes in the revaluation reserve for financial assets available-for-sale						
– Unrealised value changes	-			55		
– Realised value changes transferred to the income statement	-			-47		
		-			8	
Total recyclable results		**127**			**198**	
Non-recyclable results recognised directly in equity (after taxation):						
– Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL		0			-15	
– Movement in actuarial results		0			0	
Total non-recyclable results		**0**			**-15**	
Results recognised directly in equity			**127**			**183**
Total			**464**			**576**
– of which attributable to the holders of hybrid capital			19			18
– of which attributable to shareholders			445			558

Company cash flow statement

Amounts in millions of euros

	2018	2017
Cash flow from operating activities		
Profit before tax	459	534
Adjusted for:		
– Depreciation	3	2
– Impairments	–2	–4
– Unrealised results through the income statement	–76	–133
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	3	521
– Changes in Cash collateral posted and received	1,908	–3,736
– Changes in Repos and reverse repos	–1	–
– Changes in Loans and advances	–178	1,218
– Changes in Funds entrusted	280	–1,773
– Changes in Derivatives	1,323	–843
– Corporate income tax paid	–140	–156
– Other changes from operating activities	–323	–221
Net cash flow from operating activities	**3,256**	**–4,591**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
– Financial assets available-for-sale	–	–3,560
– Financial assets at fair value through other comprehensive income	–162	–
– Interest-bearing securities at amortised cost	–2,796	–
– Investments in associates and joint ventures	–	0
– Property and equipment	–3	–3
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	23	287
– Financial assets available-for-sale	–	4,980
– Financial assets at fair value through other comprehensive income	1,085	–
– Interest-bearing securities at amortised cost	503	–
– Assets held for sale	29	–
Net cash flow from investing activities	**–1,321**	**1,704**

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Company cash flow statement

Amounts in millions of euros

	2018	2017
Cash flow from financing activities		
Amounts received on account of:		
– Financial liabilities at fair value through the income statement	–	11
– Debt securities	313,242	222,828
Amounts paid on account of:		
– Financial liabilities at fair value through the income statement	–185	–183
– Debt securities	–316,234	–223,076
– Subordinated debt	0	–1
– Dividend distribution on Hybrid capital	–25	–23
– Dividend distribution to shareholders	–141	–91
Net cash flow from financing activities	**–3,343**	**–535**
Net change in cash and cash equivalents	**–1,408**	**–3,422**
Cash and cash equivalents as at 1 January	2,999	6,421
Cash and cash equivalents as at 31 December	**1,591**	**2,999**
Cash and cash equivalents as at 31 December:		
– Cash and balances held with central banks	1,587	2,996
– Cash equivalents in the Amount due from banks item	4	3
– Cash equivalents in the Amount due to banks item	0	0
	1,591	**2,999**
Notes to cash flow from operating activities		
Interest revenue received	5,582	5,733
Interest expenses paid	–5,241	–5,430
	341	**303**

Company statement of changes in equity

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

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR FAIR VALUE INCREASE	OWN CREDIT ADJUSTMENT	COST OF HEDGING RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
Balance as at 01/01/2017	**139**	**6**	**251**	**3**	**95**	**24**		**2,866**	**369**	**3,753**	**733**	**4,486**
Net profit									393	**393**		**393**
Movement in OCA						-15				**-15**		**-15**
Unrealised results			8	190						**198**		**198**
Total comprehensive income			**8**	**190**		**-15**			**393**	**576**		**576**
Transfer to reserve for fair value increases					9			-9		**-**		**-**
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 31/12/2017	**139**	**6**	**259**	**193**	**104**	**9**	**-**	**3,117**	**393**	**4,220**	**733**	**4,953**
IFRS 9 impact			-70	-174	-12		22	-32		**-266**		**-266**
Appropriation from previous year's profit								393	-393	**-**		**-**
Balance as at 01/01/2018	**139**	**6**	**189**	**19**	**92**	**9**	**22**	**3,478**	**0**	**3,954**	**733**	**4,687**
Total comprehensive income			**-64**	**-9**		**0**	**200**	**-**	**337**	**464**		**464**
Transfer to reserve for fair value increases					-9			9		**-**		**-**
Dividend distribution to the bank's shareholders								-141		**-141**		**-141**
Dividend distribution to holders of hybrid capital								-19		**-19**		**-19**
Balance as at 31/12/2018	**139**	**6**	**125**	**10**	**83**	**9**	**222**	**3,327**	**337**	**4,258**	**733**	**4,991**

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

Accounting principles for the company financial statements

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

Participating interests

The balance sheet item Participating interests is stated according to the equity method.

Statutory reserve for fair value increases

Pursuant to Section 2:390 sub 1 of the Dutch Civil Code, for capital protection purposes a statutory reserve must be maintained at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit) in relation to fair value increases of financial instruments stated as assets in the balance sheet for which there is no regular market quotation.

Foreign currency

The company financial statements are prepared in (millions of) euros, unless stated otherwise. The euro is used as the functional and reporting currency of BNG Bank.

Changes in accounting principles for and presentation of comparative figures

The adoption of IFRS 9 with regards to classification and 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. However, IFRS 9 has 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 has 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 revenue and the interest expenses are divided into separate line items on the face of the income statement, i.e. 'Interest revenue (or expenses) using the effective interest method' and 'Other interest revenue (or expenses)'. A detailed breakdown of the interest result is provided in Note 25. The comparative figures for the 2017 interest result have been changed as well.

BNG Bank has also implemented changes in the presentation of the balance sheet regarding cash collateral positions. In the 2018 Annual Report, there are separate balance sheet items for Cash collateral posted (assets) and Cash collateral received (liabilities). In the 2017 Annual Report, cash collateral posted was recorded in the item Amounts due from banks 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 as at 31 December 2017.

	31/12/2017 2017 ANNUAL REPORT	CHANGE	31/12/2017 2018 ANNUAL 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	5,461	-55	5,406
Cash collateral received		369	369

Notes to the company financial statements

Amounts in millions of euros

Note 38 to the consolidated financial statements includes a breakdown of balance sheet values by remaining contractual maturity (due on demand and not due on demand).

1 Cash and balances held with central banks

	31/12/2018	31/12/2017
Cash on hand	0	0
Current account balances with central banks (due on demand)	1,587	2,996
Total	**1,587**	**2,996**

2 Amounts due from banks

The Amounts due from banks item includes all receivables from banks measured at amortised cost. In 2017 (IAS 39) this balance sheet item included interest-bearing securities issued by banks which were reclassified from available-for-sale to amortised cost.

	31/12/2018	31/12/2017
Short-term loans and current account balances	4	3
Long-term lending	78	9
Interest-bearing securities reclassified from available-for-sale	–	93
Total	**82**	**105**

Note 36 provides an overview of the breakdown of financial assets subject to impairment into impairment stages.

3 Cash collateral posted

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

4 Financial assets at fair value through the income statement

This item includes:
- Financial assets mandatorily measured at fair value through profit or loss (only under IFRS 9). This concerns financial assets that have failed to pass the SPPI test;
- Financial assets designated as measured at fair value through profit or loss.

	31/12/2018	31/12/2017
Mandatorily measured at FVTPL		
Loans and advances	136	–
Designated as measured at FVTPL		
Loans and advances	523	842
Interest-bearing securities	947	1,164
Total	**1,606**	**2,006**

The total redemption value of these loans and advances and interest bearing securities at year-end 2018 is EUR 1,114 million (2017: EUR 1,463 million). Note 27 explains the changes in fair value recognised through the income statement.

5 Derivatives

This balance sheet item includes the positive fair value of derivatives not settled-to-market. Note 27 explains the changes in fair value recognised through the income statement.

	31/12/2018	31/12/2017
Derivatives not involved in a hedge accounting relationship	289	273
Derivatives involved in a portfolio hedge accounting relationship	2,853	3,795
Derivatives involved in a micro hedge accounting relationship	5,248	4,914
Total	**8,390**	**8,982**

6 Financial assets at fair value through other comprehensive income

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

	31/12/2018
IBSs issued by:	
Governments	6,682
Supranational organisations	542
Credit institutions	2,341
Other financial corporations	26
Non-financial corporations	56
Total	**9,648**

Transfers without derecognition

At year-end 2018, BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

Note 36 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

7 Financial assets available-for-sale

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments.

	31/12/2017
IBSs issued by:	
Governments	7,597
Supranational organisations	730
Credit institutions	2,259
Other financial corporations	2,545
Non-financial corporations	979
Investments in participating interests	0
Total	**14,110**

Transfers without derecognition

At year-end 2017 BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

8 Interest-bearing securities at amortised cost

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

	31/12/2018
IBSs issued by:	
Governments	1,464
Credit institutions	21
Other financial corporations	4,951
Non-financial corporations	977
Allowance for expected credit losses	-7
Total	**7,406**

Note 36 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

9 Loans and advances

IFRS 9 (2018):

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

IAS 39 (2017):

The Loans and advances item includes short-term and long-term loans to clients measured at amortised cost, as well as current account debit balances held by clients. In addition, the balance sheet item holds interest-bearing securities (not issued by banks) for which there is no active market, including those reclassified from available-for-sale to amortised cost in 2008.

	31/12/2018	31/12/2017
Short-term loans and current account balances	4,329	4,660
Long-term lending	80,719	79,858
Interest-bearing securities	–	662
Reclassified available-for-sale transactions	–	831
	85,048	**86,011**
Allowance for expected credit losses (IFRS 9)	–46	–
Incurred loss provision (IAS 39)	–	–32
Total	**85,002**	**85,979**

Note 36 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses (IFRS 9) in 2018.

The EUR 32 million incurred loss provision (IAS 39) comprises EUR 18 million in individual provisions and EUR 14 million in collective provision (IBNI).

	2017
Movement in the incurred loss provision:	
Opening balance	–38
Additions during the financial year	–3
Release during the financial year	4
Withdrawals during the financial year	5
Closing balance	**-32**

10 Value adjustments on loans in portfolio hedge accounting

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

	2018	2017
Movements of value adjustments on loans in portfolio hedge accounting		
Opening balance	11,813	14,894
Elimination of IAS 39 reclassification of financial assets 'available for sale' to 'amortised cost'	-128	-
Movements in the unrealised portion in the financial year	846	-2,120
Amortisation in the financial year	-834	-860
Realisation from sales in the financial year	-131	-101
Closing balance	**11,566**	**11,813**

11 Participating interests

	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	PARTICIPATING SHARE		BALANCE SHEET VALUE	
Subsidiaries				
BNG Gebiedsontwikkeling BV, The Hague	100%	100%	50	51
Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	6	6
Subtotal			**56**	**57**
Associates				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
Subtotal			**3**	**3**
Total			**59**	**60**

For a description of the bank's subsidiaries and associates, please refer to Appendix A and to the Other notes, respectively, of the consolidated financial statements. For summarised financial information on associates, refer to the 'Other notes to the consolidated financial statements'.

12 Property and equipment

	2018	2017	2018	2017	2018	2017
	PROPERTY		EQUIPMENT		TOTAL	
Historical cost						
Value as at 1 January	49	49	19	17	68	66
Investments	0	0	3	2	3	2
Disposals	–	–	–	–	–	–
Value as at 31 December	49	49	22	19	71	68
Depreciation						
Accumulated depreciation as at 1 January	37	36	14	13	51	49
Depreciation during the year	0	1	3	1	3	2
Accumulated depreciation as at 31 December	37	37	17	14	54	51
Total	**12**	**12**	**5**	**5**	**17**	**17**

Estimated useful life	
Buildings	33 1/3 years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

13 Other assets

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

14 Assets held for sale

The assets of EUR 30 million that were held for sale at the end of 2017 concerned participating equity investments in a fund that finances infrastructural projects. This participating interest was sold in 2018.

15 Amounts due to banks

In 2018, this line item includes payables related to 'Settle to Market' (STM) derivative contracts, including variation margin and related price alignment amounts, that are considered as a single unit of account.

	31/12/2018	31/12/2017
Current account balances	0	0
Payables related to STM derivative contracts	1	-
Deposits	1,837	1,832
Private loans	545	247
Total	**2,383**	**2,079**

16 Cash collateral received

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

17 Financial liabilities at fair value through the income statement

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

	31/12/2018	31/12/2017
Publicly placed debt securities	238	715
Privately placed debt securities	524	229
Total	**762**	**944**

The total redemption value of the financial liabilities at year-end 2018 is EUR 613 million (2017: EUR 765 million). Note 27 explains the changes in value recognised through the income statement.

18 Derivatives

This balance sheet item includes the negative fair value of derivatives not settled-to-market. Note 27 explains the changes in fair value recognised through the income statement.

	31/12/2018	31/12/2017
Derivatives not involved in a hedge accounting relationship	819	1,001
Derivatives involved in a portfolio hedge accounting relationship	15,586	16,598
Derivatives involved in a micro hedge accounting relationship	2,818	4,271
Total	**19,223**	**21,870**

19 Taxes

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

	31/12/2018	31/12/2017
Current tax assets	8	–
Current tax liabilities	–	-15
Deferred tax liabilities	-99	-173
Total	**-91**	**-188**

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') in 2018 in accordance with IFRS 9, for the period 2018-2020. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets at fair value through the income statement. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached.

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

	2018	2017
Profit before tax	459	534
Tax levied at the nominal tax rate	114	-133
Tax adjustment from previous years	0	0
Participation exemption	0	1
Income from the sale of BNG Vermogensbeheer not subject to tax	0	0
Non-deductible expenses (bank levy)	8	-9
Effective tax in the company income statement	**122**	**-141**
Nominal tax rate	25.0%	25.0%
Effective tax rate	26,7%	26.4%

Due to expected changes in the nominal tax rate in 2020 and 2021 the deferred taxes are based on these nominal rates.

				2018
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
Changes in deferred taxes				
Fiscal treatment opening balance sheet	0	–	–	0
Financial assets available-for-sale	-102	102	–	–
Financial assets at fair value through other comprehensive income	–	-32	–	-32
Cash flow hedge reserve	-65	3	–	-62
Own Credit Adjustment	-3	1	–	-2
Hybrid capital	-4	0		-4
Employee benefits provision	1	–	0	1
Total	**-173**	**74**	**0**	**-99**

				2017
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
Changes in deferred taxes				
Fiscal treatment opening balance sheet	0	–	–	0
Financial assets available-for-sale	-104	2	–	-102
Cash flow hedge reserve	-2	-63	–	-65
Own Credit Adjustment	-8	5	–	-3
Hybrid capital	-3	-1		-4
Employee benefits provision	1	–	0	1
Total	**-116**	**-57**	**0**	**-173**

20 Debt securities

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

	31/12/2018	31/12/2017
Bond loans	89,531	89,896
Commercial Paper	5,323	9,203
Privately placed debt securities	8,869	5,028
Total	**103,722**	**104,127**

21 Funds entrusted

	31/12/2018	31/12/2017
Current accounts	2,193	1,857
Short-term deposits	91	0
Long-term deposits	3,502	3,549
Total	**5,786**	**5,406**

22 Subordinated debt

	31/12/2018	31/12/2017
Subordinated debt	32	31
Total	**32**	**31**

23 Other liabilities

	31/12/2018	31/12/2017
Employee benefits provision	2	2
Other liabilities	74	40
Total	**76**	**42**

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

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

	2018	2017
Employee benefits provision		
Net liability as at 1 January	2	3
Movements in the provision	0	–1
Net liability as at 31 December	**2**	**2**

The other liabilities are mainly composed of amounts payable related to derivatives and lending to clients.

24 Equity

Since BNG Bank has no minority interests, the entire company equity, excluding the hybrid capital, is attributable to shareholders. The items included in the company equity are explained below.

	31/12/2018		31/12/2017	
Share capital		139		139
Share premium reserve		6		6
Revaluation reserve				
– Financial assets available-for-sale	–		259	
– Financial assets at fair value through other comprehensive income	125		–	
		125		259
Cash flow hedge reserve	10			193
Own credit adjustment	9			9
Cost of hedging reserve	222			
Reserve for fair value increases	83			104
Other reserves	3,327			3,117
Unappropriated profit	337			393
Equity attributable to shareholders		**4,258**		**4,220**
Hybrid capital		733		733
Total		**4,991**		**4,953**

Share capital
The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. There are no issued shares that are not fully paid up. BNG Bank and its subsidiaries hold no company shares. None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

Share premium reserve
There were no movements in 2018 and 2017.

Statutory reserves
BNG Bank's statutory reserves consist of the revaluation reserve, the cash flow hedge reserve and the reserve for fair value increases.

Revaluation reserve
At year-end 2018, the revaluation reserve includes EUR 292 million in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing

securities involved in hedge accounting, which are recognised in the Financial assets at fair value through other comprehensive income item. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement.

Own credit adjustment

The Own Credit Adjustment of EUR 9 million net of taxes (2017: EUR 9 million). This adjustment relates to changes in credit risk of financial liabilities measured at fair value through the income statement.

Cash flow hedge reserve

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

Cost of hedging reserve

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

Reserve for fair value increases

This reserve concerns the positive difference between the fair value and the amortised cost of financial instruments stated as assets in the balance sheet for which there is no regular market quotation. This statutory reserve is maintained for capital protection purposes at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit).

Other reserves

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves. In 2018, a dividend of EUR 141 million (2017: EUR 91 million) was paid out to the bank's shareholders, charged to the Other reserves. EUR 25 million (before tax) was distributed to the holders of the hybrid capital in 2018 (2017: EUR 24 million), charged to the Other reserves. The Other reserves include a share premium related to hybrid capital of EUR 0.1 million in total (2017: EUR 0.1 million).

Unappropriated profit

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

Hybrid capital

The bank's hybrid capital amounts to EUR 733 million. In 2018 no additional hybrid capital was issued. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to compulsory amortisation in the event that the CET1 ratio falls below 5.125%. The payment qualifies as dividend under IFRS and is charged to the Other reserves. The deductibility of this dividend for corporate income tax purposes ends December 31, 2018.

The instruments are structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. BNG Bank has the unilateral contractual option of repaying the perpetual capital instruments prematurely on the sixth coupon due date (in May 2021 and 2022) and subsequently every year on the coupon due date.

25 Interest result

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

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

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

	2018		2017	
Interest revenue				
Interest revenue calculated by using the effective interest method:				
– Financial assets at amortised cost	2,252		2,323	
– Financial assets at fair value through other comprehensive income	183			
– Financial assets available-for-sale			244	
– Derivatives involved in hedge accounting	2,673		2,798	
– Negative interest expenses on financial liabilities	44		39	
		5,152		5,404
Other interest revenue:				
– Financial assets designated at fair value through the income statement	46		55	
– Financial assets mandatorily at fair value through the income statement	3			
– Derivatives not involved in hedge accounting	516		427	
– Other	–		17	
		565		499
Total interest revenue:		**5,717**		**5,903**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
– Financial liabilities at amortised cost	2,368		2,227	
– Derivatives involved in hedge accounting	2,705		3,003	
– Negative interest expenses on financial assets	104		86	
		5,177		5,316
Other interest expenses:				
– Financial liabilities designated at fair value through the income statement	64		41	
– Derivatives not involved in hedge accounting	36		57	
– Other	7		55	
		107		153
Total interest expenses		**5,284**		**5,469**
Total interest result		**433**		**434**

The interest revenue in 2018 includes EUR 1 million (2017: EUR 4 million) in interest revenue for financial assets, relating to Financial assets at amortised cost (notes 8 and 9) and Financial assets at fair value through other comprehensive income (note 6), which were subject to impairment.

26 Commission result

Commission income

This includes income from services provided to third parties.

	2018	2017
Income from loans and credit facilities	21	16
Income from payment services	9	10
Total	**30**	**26**

Commission expenses

This item comprises expenses totalling EUR 2 million (2017: EUR 3 million) relating to services rendered by third parties in relation to loans and advances, facilities and payment services.

27 Result on financial transactions

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

	2018	2018	2017	2017
Market value changes in financial assets at fair value through the income statement resulting from changes in credit and liquidity spreads, consisting of:				
– Interest-bearing securities	11		42	
– Structured loans	–2		2	
		9		44
Result on hedge accounting				
– Portfolio fair value hedge accounting	18		48	
– Micro fair value hedge accounting	–2		–24	
– Micro cash flow hedge accounting	–2		–3	
		14		21
Change in counterparty credit risk of derivatives (CVA/DVA)		12		37
Realised sales and buy-out results		36		52
Other market value changes		40		26
Total		**112**		**180**

Also in 2018, the result on financial transactions was positively affected by realised and unrealised results. The realised results of EUR 36 million were mainly related due to sales of interest-bearing securities out of the liquidity portfolio. The unrealised results amounted to EUR 76 million. The reduced credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a positive result of EUR 12 million. The unrealised results were also positively affected by a decline in counterparty credit risk of derivatives, results on hedge accounting and other market value changes. The other market value changes also include the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

28 Results from participating interests

	2018	2017
Associates	0	1
Subsidiaries	-1	6
Total	**-1**	**7**

For a description of the subsidiaries and associates, please refer to Appendix A and the Other notes, respectively, of the consolidated financial statements.

29 Result from sale of assets held for sale

The investments in participating interests that are held for sale at the end of 2017 concern equity investments in a fund that finances infrastructural projects. This investment was sold in 2018. The difference between the balance sheet value (including the value recognised in the revaluation reserve) and the sales proceeds was attributed to this item in the income statement.

30 Staff costs

	2018	2017
Wages and salaries	26	25
Pension costs	4	3
Social security costs	3	2
Additions to the employee benefits provision	-	-
Other staff costs	6	11
Total	**39**	**42**

31 Other administrative expenses

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, printing costs, training expenses and advertising expenses. The total other administrative expenses for 2018 amounted to EUR 32 million (2017: EUR 25 million).

32 Depreciation

A breakdown of this item is included in the note on Property and equipment (note 9). In total, the depreciation charges amounted to EUR 3 million in 2018 (2017: EUR 2 million).

33 Impairments

The impairments in 2018 amounted to EUR 2 million negative (2017: EUR 4 million negative). A negative impairment loss constitutes a positive result in the income statement.

				2018
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Impairment results due to movements in allowances:				
– Increases in allowances due to origination and acquisition	4	8	0	12
– Decreases in allowances due to derecognition	-3	-9	-4	-16
– Changes in allowances due to changes in credit risk (net)	0	4	-1	3
	1	**3**	**-5**	**-1**
Impairment results not due to movements in allowances:				
– Reversal of impairment due to cash flows received from past write-offs			0	0
– Impairments due to write-offs			-1	-1
	-	**-**	**-1**	**-1**
Net impairment result on financial assets	**1**	**3**	**-6**	**-2**

Movement in allowances for expected credit losses under IFRS 9

				2018
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Movements in allowances taken through the income statement:				
– Increases in allowances due to origination and acquisition	4	8	0	12
– Decreases in allowances due to derecognition	–3	–9	–4	–16
– Changes in allowances due to changes in credit risk (net)	0	4	–1	3
	1	**3**	**-5**	**-1**
Movements in allowances not taken through the income statement:				
– Decreases in allowance due to write-offs			–8	–8
	-	**-**	**-8**	**-8**
Total movements in allowances	**1**	**3**	**-13**	**-9**

Movement in allowances for credit losses under IAS 39

	2017
Addition to the incurred loss provision	3
Release from the incurred loss provision	–4
Reversal of impairment of reclassified financial assets available-for-sale	–3
Total	**-4**

The changes in the incurred loss provision are included in the Loans and advances item (Note 9).

34 Contribution to resolution fund and bank levy

For a breakdown of this item, please refer to note 36 of the Notes to the consolidated financial statements.

35 Fees of independent auditors

(amounts in thousands of euros, VAT included)

The following audit fees were reported in the income statement:

	2018	2017
Audit of the financial statements	309	309
Other audit services	285	397
Tax services	–	–
Other non-audit services	9	7
Total	**603**	**713**

The fees listed above relate to the procedures applied to the Company and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ('Wet toezicht accountantsorganisaties – Wta'). In the case of BNG Bank this is only applicable to Dutch based accounting firms (PwC the Netherlands accountants ('PwC NL'), including its tax services and advisory groups) as BNG Bank does not make use of foreign based accounting firms. The audit fees relate to the audit of the 2018 financial statements, regardless of whether the work was performed during the financial year.

Summary of services rendered by the independent auditor, in addition to the audit of the financial statements

Our independent auditor, PwC NL, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

Other audit services required by law or regulatory requirements

- Statutory audits of controlled entities;
- Review of interim financial statements;
- Audit of the regulatory returns for the Dutch Central Bank;
- Assurance engagement credit claims for the Dutch Central Bank.

Other audit services

- Assurance engagement on the sustainability report;
- Comfort letters on annual update of debt issuance prospectus and drawdowns under the debt issuance programme.
- Agreed upon procedure on the financial information for the Single Resolution Board;

Other non-audit services

- Agreed upon procedure on the financial information for the Single Resolution Board;
- Agreed-upon procedures on request of the Supervisory Board relating the management information used for determining the variable remuneration of management.

36 Impairment of financial assets and off-balance sheet commitments

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

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

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

							31/12/2018
		GROSS CARRYING AMOUNT			ALLOWANCE FOR CREDIT LOSS		
	CARRYING AMOUNT	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
		STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Financial assets subject to impairment							
Cash and balances held with central banks	1,587	1,587					
Amounts due from banks	82	82	0		0	0	
Cash collateral posted	12,043	12,043					
Financial assets at fair value through OCI*	9,648	9,595	53		0	–1	
Interest-bearing securities at amortised cost	7,406	7,319	94		–1	–6	
Loans and advances	85,002	83,634	1,360	54	–4	–27	–15
Total	**115,768**	**114,260**	**1,507**	**54**	**-5**	**-34**	**-15**

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

						31/12/2018
	NOMINAL AMOUNT			PROVISION		
	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
	STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Off-balance sheet commitments						
Contingent liabilities	31	1		0	0	
Revocable facilities	6,022	35		0	0	
Irrevocable facilities	7,504	120		–1	–1	
Total	**13,557**	**156**	**-**	**-1**	**-1**	**-**

Movements in allowances and provisions for expected credit losses

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

						2018
	OPENING BALANCE	INCREASES DUE TO ORIGINATION AND ACQUISITION	DECREASE DUE TO DERECOG-NITION REPAYMENTS AND DISPOSALS	CHANGES DUE TO CHANGE IN CREDIT RISK (NET)	DECREASE IN ALLOWANCE ACCOUNT DUE TO WRITE-OFFS	CLOSING BALANCE
Allowances						
Cash and balances held with central banks	–	–	–	–	–	–
Amounts due from banks	0	0	0	0	–	0
Financial assets at fair value through OCI	1	0	0	0	–	1
Interest-bearing securities at amortised cost	13	2	–1	1	–8	7
Loans and advances	50	8	–13	2	–	47
	64	**10**	**-14**	**3**	**-8**	**55**
Provision						
Off-balance sheet commitments	2	2	–2	0	–	2

Other notes

For the details on other items, please refer to the notes to the consolidated financial statements. For the other notes, please refer to the section entitled 'Other notes to the consolidated financial statements'.

Remuneration of the executive board and the supervisory board

For the details of the remuneration of the Executive Board and the Supervisory Board, refer to the 'Other notes to the consolidated financial statements' section.

The Hague, 15 March 2019

Executive board
Ms G.J. Salden, Chair (appointed 1 January 2018)
O.J. Labe
J.C. Reichardt

Supervisory board
Ms M. Sint, Chair
J.J. Nooitgedagt, Vice-chair (and Secretary)
C.J. Beuving
T.J.F.M. Bovens
J.B.S. Conijn
Ms M.E.R. van Elst
Ms J. Kriens
J.C.M. van Rutte

6.3 Other information

Independent auditor's report

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

Report on the financial statements 2018

Our opinion
In our opinion, BNG Bank N.V.'s financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited
We have audited the accompanying financial statements 2018 of BNG Bank N.V., Den Haag ('the Company'). The financial statements include the consolidated financial statements of BNG Bank N.V. together with its subsidiaries ('the Group') and the company financial statements.
The financial statements comprise:
- the consolidated and company balance sheet as at 31 December 2018;
- the following statements for 2018: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of BNG Bank N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context
BNG Bank N.V. is a credit institution licensed in the Netherlands. Its main activity is providing financing to the Dutch public sector and semi-public domain. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'critical accounting estimates and judgements' of the financial statements the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the impairment calculation of loans and advances, the application of hedge accounting and the valuation of financial assets and liabilities measured at fair value, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatement due to fraud. Given the importance of IT for the Company we have, to the extent relevant to our audit, paid specific attention to the IT general controls, which comprise the policies and procedures to ensure reliable automated processing of information used for financial reporting purposes. The Company has outsourced a larger part of its IT activities to Centric FSS. This has also implications for our audit as set out in the section 'The scope of our group audit' of the auditor's report.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a banking institution. We therefore included specialists in the areas of banking activities, IT, valuation of financial instruments and hedge accounting in our team.

The outline of our audit approach was as follows:

Materiality
- Overall materiality: € 22.9 million.

Audit scope
- We conducted audit work on BNG Bank and both of its subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel.
- In our audit on the valuation of participations held by BNG Gebiedsontwikkeling B.V. we made use of the work performed by a component auditor.
- In our assessment of the IT landscape we made use of the ISAE 3402 type 2 report of Centric FSS.

Key audit matters
- Impairment of loans and receivables
- Application of hedge accounting
- Valuation of financial instruments

Materiality
The scope of our audit is influenced by the application of materiality, which is further explained in the section ‘Our responsibilities for the audit of the financial statements’.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 22.9 million (2017: € 26.8 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement we used 5% of profit before tax.
Rationale for benchmark applied	We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the Company.
Component materiality	BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. were audited to a local statutory audit materiality that was less than our overall group materiality.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 1.1 million (2017: € 1.3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

BNG Bank N.V. is the parent company of a group with BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. as its 100% subsidiaries. The financial information of these subsidiaries is included in the consolidated financial statements of BNG Bank N.V. All consolidated positions and transactions in the financial statements were in scope of our audit.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the statutory level and thus ensuring that we obtained sufficient coverage across the Group. The statutory audits of BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. were performed by the group audit team.

In our audit of the valuation of participations held by BNG Gebiedsontwikkeling B.V. we made use of the work performed by a component auditor. We determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole. We have sent specific instructions to the component auditor, held meetings with them and performed a file review of the audit file of the component auditor.

BNG Bank has outsourced the largest part of its IT activities and payment services to Centric FSS. In our assessment of the IT landscape, we made use of the ISAE 3402 Type 2 report from Centric FSS. In this context, we have been involved in planning the ISAE 3402 work by the service-provider auditor of Centric FSS, discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 assurance report once it was finalised. Based on these procedures performed, we conclude that in the context of our audit of the financial statements of BNG Bank, we could rely on the ISAE 3402 Type 2 assurance report of Centric FSS.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group’s financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Compared to prior year we did not include any new key audit matters as we did not came across any significant transactions or developments that were considered a key audit matter. In prior year, we considered the disclosure on the estimated impact of IFRS 9 a key audit matter. As per 1 January 2018 this new standard has been implemented by the Group. As such this is not considered a specific key audit matter but to the extent applicable is now part of our key audit matters in the areas of impairment on loans and advances, application of hedge accounting and the valuation of financial instruments.

Key audit matter	Our audit work and observations
Impairment of loans and receivables **Refer to the accounting principle 'Impairment of financial assets' and note 41 'Impairment of financial assets and off-balance sheet commitments' in the consolidated financial statements** **Focussing on higher risk portfolios:** The lending to clients classified as loans and advances measured at amortized cost amounts to € 85 billion as at 31 December 2018. Most of the loan portfolio relates to loans that are guaranteed by a (central) government body or by the WSW or Wfz guarantee funds. The credit risk inherent in this category is limited as explained in the risk paragraph in the financial statements. Therefore, the expected credit loss on these loans is considered low. However, the Company also has an unguaranteed loan portfolio amounting to € 8 billion that has a higher risk of shortfalls in expected cash flows from repayments and collateral values. The Company calculates the impairment of loans and advances as from 1 January 2018 in accordance with IFRS 9. **New areas of estimation uncertainty and management judgment:** The application of IFRS 9 as per 1 January 2018 has led to further increase in complexity and management judgement to calculate the expected credit losses for loans and advances. Amongst other things, this applies to the choices and judgement made in the impairment methodology such as determining what is considered a significant increase in credit risk (SICR), what forward looking macroeconomic information is relevant to measure expected credit losses for loans and receivables and managements estimates of probabilities of default and loss given default. Based on the low number of individual exposures in stage 3 and the resulting limited impact on the 2018 income statement, we did not consider the stage 3 exposures as a key area of focus for the 2018 audit. Continued on next page	**Evaluating accounting policy choices:** We evaluated how management has implemented IFRS 9 to determine whether this has been set up in accordance with the requirements included in the new standard. We challenged management on their judgement in key accounting policy choices in the areas of what is considered to be SICR, application of the low credit risk exemption and default definitions. We considered the policy choices in the application of IFRS 9 to be reasonable. **Internal controls:** Our audit work included, amongst others, understanding, evaluating the design and testing the operating effectiveness of controls in the lending and credit risk mitigation process. These include, amongst others, controls aimed at evaluating creditworthiness of new and existing clients. We concluded that, to the extent relevant to our audit, we could rely on these controls. **Assessing individual exposures:** For a sample of loans, for which management concluded that no SICR occurred, we assessed whether there were any indications of this, for example by determining that there are no significant arrears in payments, take notice of the latest internal annual creditworthiness assessment and evaluation of latest financial information of counterparties. Our procedures did not return any different outcomes as management. **Evaluating internal credit rating models:** With respect to the internal credit rating models used we evaluated the model governance procedures, credit modelling monitoring performed by risk management, reasonableness of the methodology and overlays for macro-economic scenarios applied in determining the credit rating. We also assessed that internal credit ratings are updated at least annually and approved by the credit risk committee and noted no material exceptions in our tests. With respect to the forward looking macro-economic information we challenged on how the inputs for the various models were determined and to the extent possible compared this to external market data.

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Key audit matter

Models and assumptions: Furthermore, to calculate the expected credit losses for stage 1 and 2, the executive board needed to estimate the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The bank's loan portfolio has a low default character and as a result, there is limited internal historical data to support and back-test the applied PDs and LGDs. Management used its internally developed credit rating models to estimate the PD for exposures for which no external rating is available. Given the low default character of the bank's loan portfolio the rating models were considered expert models and required a high degree of judgement to stratify clients in rating classes.

Also with respect to the LGD used in the calculation of expected credit losses, the executive board has applied significant judgement. The Company applies a basic flat LGD percentage based on the limited available historic default information.

The impairment provision for loans and advances as per 31 December 2018 is € 46 million and the impairment charge for loans and advances recognized in 2018 in the income statement amounts to € 3 million.

Given the complexity and judgement required to calculate the impairments of loans and advances and the impact it might have on results, this area is subject to a higher risk of material misstatement due to error or fraud. Therefore, we have identified the impairment of loans and advances as a key audit matter in our audit.

Our audit work and observations

Management engaged with external experts to benchmark their internal PD credit rating models and to validate their model used for including forward-looking macro-economic information. As part of our audit procedures, amongst others, we evaluated the competence, capability and objectivity of these external experts. Furthermore, we obtained the reports issued by these external experts that summarise the procedures performed, the evidence obtained and conclusions reached. We discussed and evaluated these reports with the Company's internal model owners and external experts. We also assessed the external expert's conclusions to conclude that their recommendations have no material impact on the expected credit loss calculation. We did not identify any indicators of possible management bias in determining internal credit ratings and corresponding PDs.

With respect the LGD used in the calculation of expected credit losses, we challenged management's evaluation of the limited available historic information and the assumptions applied therein.

Recalculation of impairment calculation: We performed a recalculation of the impairment calculation to assess the accuracy of the calculations and validated completeness by assessing that all loans and advances are included in the calculation. Our procedures did not identify any material differences.

Disclosures: Furthermore, we assessed the adequacy of the disclosures, including those on estimation uncertainty and judgements, to assess compliance with the requirements in EU-IFRS.

Key audit matter	Our audit work and observations
Application of hedge accounting **Refer to the accounting policy 'Hedge accounting' and the disclosure note 'hedging of risks with derivatives' in the consolidated financial statements** BNG Bank enters into derivatives to hedge its interest rate risk and variability in cash flows. By applying hedge accounting, the results of the hedged item and the hedging instrument are recognized simultaneously in the income statement to neutralise the impact on the result, to the extent the hedging relationship is effective. **Hedged risks:** BNG Bank applies fair value hedge accounting to hedge interest rate risks and cash flow hedge accounting to hedge the risk resulting from variability in cash flows as a result of cross-currency fluctuations. For interest rate risk BNG Bank applies micro fair value hedging as well as portfolio fair value hedging. With respect to hedge accounting rules under the IFRS 9 standard that came into effect as per 1 January 2018 there are no implications for portfolio hedge accounting as IAS 39 remains effective for these types of hedges in 2018. Micro hedge accounting has changed and BNG Bank decided to adopt IFRS 9 in this area. **New areas of estimation uncertainty and management judgment:** The key change for BNG Bank in the application of micro hedge accounting under IFRS 9 is that the cross-currency basis risk of a derivative contract can be separated and excluded from the designated hedging instrument and treated as cost of hedging. This means that fair value movements arising from the cross-currency basis spread included in the valuation of a derivative contract used in hedge accounting can be separated and accounted for as cost of hedging within other comprehensive income. This is accumulated in a separate line item in equity and subsequently recycled to the income statement in the same periods during which the hedged expected future Continued on next page	**Internal controls:** Our audit work included, amongst others, understanding, evaluating and testing the design and operating effectiveness of controls relating to the documentation and review of hedge relationships, including testing the hedge ineffectiveness by management. Based on this work, we concluded that, to the extent relevant to our audit, we could rely on these controls for the purpose of our audit. **Reconciliation of hedge effectiveness tests:** We tested the reconciliation between the results of the hedge effectiveness tests and the hedge adjustments in the financial statements. We found no material exceptions during our testing of this reconciliation. **Evaluating compliance with EU-IFRS:** For a sample of hedging relationships, covering both fair value and cash flow hedge accounting relationships, we verified that hedge documentation complied with the requirements of EU-IFRS. We found no exceptions in our tests. For the implementation in 2018 of micro hedge accounting applied to the foreign currency risk included in credit spread we, together with our hedge accounting specialists, tested the appropriateness of the methodology applied and concluded that this application is in accordance with EU-IFRS. **Evaluation models and valuation methodology:** We, assisted by our hedge accounting specialists, tested the models used by BNG Bank for calculating hedge effectiveness for portfolio hedging. For micro hedge accounting, management performed a quantitative hedge effectiveness test to demonstrate that hedge relationships are highly effective. As part of our audit procedures tested management's effectiveness calculations and no exceptions were noted. For IFRS 9 hedge accounting, with the assistance of our valuation specialists, we tested the appropriateness of the valuation methodology applied in separation of the cross-currency basis spread from a derivative and considered this methodology to be appropriate.

Continuation of previous page

Key audit matter	Our audit work and observations
cash flows affect the income statement. In doing so, management applied significant judgement since there is no single method for separating the cross-currency basis spread from a derivative and requires significant valuation expertise. The new cost of hedging line item amounts to € 22 million and € 222 million (both net of tax) as per 1 January 2018 and 31 December 2018 respectively. **Requirements to apply hedge accounting:** To apply hedge accounting, BNG Bank must meet the EU-IFRS requirements. These include amongst others: – Documentation of hedging relationships in formal hedge documentation; – Validating that the hedge accounting relationship meets all of the hedge effectiveness requirements of IAS 39 and IFRS 9; and – Processing the results of the effectiveness tests in the financial statements. **Use of models:** BNG Bank has developed specific models for calculating hedge effectiveness. The determination of the effectiveness is complex and involves significant management judgment. As per management's assessment, both portfolio hedging and micro hedging within BNG Bank have been highly effective in recent years. Given the technical and complex requirements for the application of hedge accounting and that incorrect application of these requirements could have a material impact on result and equity given the large hedge accounting portfolio of BNG Bank, we have considered this a key audit matter in our audit.	

Key audit matter

Valuation of financial instruments

Refer to the accounting policy 'fair value of financial instruments' and the disclosure note 'fair value of financial instruments' in the consolidated financial statements

BNG Bank has financial instruments on its balance sheet that are measured at fair value through the income statement. The portfolio consists of € 9,611 million of financial assets classified as level 2 and € 378 million as level 3. Financial liabilities measured at fair value through the income statement are in total € 762 million as per 31 December 2018. The derivative portfolio with a fair value of € 8,382 million recorded as assets and € 19,215 million recorded as liabilities contains for 99% level 2 and 1% level 3 instruments.

Level 2 financial instruments: For financial instruments classified as level 2 management estimates the fair value by using discounted cash flow models, option pricing models, modelling of double default effects and other valuation techniques. Judgement is required in determining the valuation model and policy.

For level 2 instruments, management mainly uses observable inputs to determine forward curves, discounting curves, volatility cubes, inflation curve and spread curves. For derivatives for which BNG Bank has no strong credit support annex in place a Credit Valuation Adjustment (CVA) is estimated in the calculation of the fair value.

Given the complexity in certain valuation models and inputs, the size and diversity of the portfolio, and the impact that the portfolio has on the results, this area is subject to higher risk of material misstatement due to error or fraud. Therefore, we consider the fair value measurement of level 2 financial instruments a key audit matter.

Continued on next page

Our audit work and observations

Testing observable inputs: For both level 2 and level 3 financial instruments we compared the observable inputs such as forward curves, discounting curves and volatility cubes to independent sources and external market available data and we assessed whether these inputs are in line with market and industry practice. For the own funding curve used to determine the own credit adjustment for financial liabilities measured at fair value we evaluated the reasonableness of the curve construction by comparing the input to market information available over the full term of the curve. Our procedures demonstrated that management's inputs fall within our range of reasonable outcomes.

Challenging unobservable inputs: For level 3 instruments, we challenged management on assumptions and methodology applied and validated the internal process performed to determine these inputs. As part of this, we also evaluated to what extent we identified any indicators of possible management bias in estimating fair value. For the financial assets classified as level 3 we challenged how the unobservable inputs (such as monoline guarantees, and credit and liquidity spreads) were estimated and were determined based upon the internal policies. Based upon our procedures we consider unobservable inputs and judgements made in determining the fair value of level 3 instruments to fall within our range of reasonable outcomes.

Independent revaluation: For level 2 instruments we, together with our internal valuation specialists, performed an independent valuation of a sample of positions, taking into consideration different categories of financial instruments divided in, amongst others, maturity, currency classes, curves and various valuation models applied. We performed these procedures to determine if management's valuation outcomes fell within a reasonable range of possible outcomes and to validate the design and operating effectiveness of the evaluated models and curves.

Continuation of previous page

Key audit matter	Our audit work and observations
Level 3 financial instruments: For level 3 financial instruments, management needs to estimate significant unobservable inputs in the valuation models to determine fair value. The main unobservable inputs relate to recovery rates and correlation factors for bonds with a monoline guarantee and credit and liquidity spreads. Given the level of management estimation involved in determining these unobservable inputs, the long duration of some of those instruments and therefore the impact that these assumptions have on result, this area is subject to higher risk of material misstatement due to error or fraud. Therefore, we consider this a key audit matter.	

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- foreword (interview with chair of executive board);
- profile (including selected financial data);
- report of the executive board;
- governance and internal operations;
- report of the supervisory board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- appendices.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment
We were appointed on 23 April 2015 as auditor of BNG Bank N.V. by the general meeting following a recommendation by the supervisory board on 28 November 2014.

Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 3 years.

No prohibited non-audit services
To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered
The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 35 to the company financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the executive board and the supervisory board for the financial statements
The executive board is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion. A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 15 March 2019

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

Appendix to our auditor's report on the financial statements 2018 of BNG Bank N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Assurance report of the independent auditor

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

Assurance-report on the sustainability information 2018

Our opinion

In our opinion the sustainability information in the accompanying annual report 2018 of BNG Bank N.V. presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year ended 31 December 2018 in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) – comprehensive option and the internally applied reporting criteria.

What we have audited

We have audited the sustainability information included in the annual report for the year ended 31 December 2018, as included in the following sections in the annual report ('the sustainability information'):

- Key figures (social and environmental)
- What we have achieved in 2018 (except for paragraphs 'Financial results' and 'Ambitions and outlook for 2019')
- Governance and internal business operations
- Report of the Supervisory Board
- Notes on the materiality analysis and material topics
- BNG Cultuurfonds
- Appendix 2: Workforce

The sustainability information comprises a representation of the policy and business operations of BNG Bank N.V., Den Haag (hereafter: 'BNG Bank') with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended 31 December 2018.

The basis for our opinion

We have performed our audit in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assuranceopdrachten inzake maatschappelijke verslagen' ('Assurance engagements on corporate social responsibility reports'). Our responsibilities under this standard are further described in the section 'Our responsibilities for the audit of the sustainability information' of this assurance report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and quality control

We are independent of BNG Bank in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – 'Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct').

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – 'Regulations for quality systems') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

Reporting criteria

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The executive board of BNG Bank is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria, as disclosed in Appendix 1 'Reporting principles and data-measuring technique' of the annual report. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Limitations to the scope of our audit

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the sustainability information.

The links to external sources or websites in the sustainability information are not part of the sustainability information audited by us. We do not provide assurance over information outside of this the annual report.

Responsibilities for the sustainability information and the audit

Responsibilities of the executive board and the supervisory board

The executive board of BNG Bank is responsible for the preparation of the sustainability information in accordance with the reporting criteria as included in section 'reporting criteria', including the identification of stakeholders and the definition of material matters.

The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are summarized in Appendix 1 'Reporting principles and data-measuring technique' of the annual report. The executive board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The executive board is also responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing the company's reporting process on the sustainability information.

Our responsibilities for the audit of the sustainability information

Our responsibility is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit information to provide a basis for our opinion.

Our opinion aims to provide reasonable assurance that the sustainability information contains no material misstatements. Reasonable assurance is a high, but not absolute level of assurance, which makes it possible that we may not detect all misstatements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the executive board.
- Obtaining an understanding of the systems and processes for collecting, reporting, and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Identifying and assessing the risks if the sustainability information is misleading or unbalanced, or contains material misstatement, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the sustainability information is misleading or unbalanced or the risk of not detecting a material misstatement, resulting from fraud is higher than for one

resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further procedures consisted amongst others of:

- Interviewing management (and/or relevant staff) at corporate level responsible for the sustainability strategy, policy and results;
- Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
- Obtaining audit information that the sustainability information reconciles with underlying records of the company;
- Evaluating relevant internal and external documentation, on a sample basis, to determine the reliability of the information in the sustainability information.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our audit.
- Evaluating the presentation, structure and content of the sustainability information;
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 15 March 2019

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

Stipulations of the articles of association concerning profit appropriation

Article 20

20.1 Profits shall be distributed after adoption by the general meeting of shareholders of the annual accounts showing that this is permissible.

20.2 The company may make payments to the shareholders from the profits available for distribution only in so far as its equity capital exceeds the amounts of the paid-up part of the capital plus the reserves which have to be kept by law.

20.3 First of all, if possible, the profits available for distribution shall be used to add an amount of ten per cent (10%) of the profit of the financial year as evidenced by the annual accounts to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five per cent (5%) of the nominal amount of their shareholding.

20.4 The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholdings, in so far as the general meeting of shareholders does not allocate this to reserves.

20.5 The company shall be empowered to make interim distributions, subject to the provisions of Article 105, paragraph 4, of Book 2 of the Civil Code, in the following manner:

a. the general meeting of shareholders requests the Executive Board in writing to submit a proposal for an interim distribution;

b. if the Executive Board has not, within six months after receipt of such a request, submitted a proposal approved by the Supervisory Board to the general meeting of shareholders, the general meeting of shareholders shall be free to resolve to make an interim distribution;

c. if the general meeting of shareholders has rejected the proposal of the Executive Board approved by the Supervisory Board, the general meeting of shareholders shall again request the Executive Board in writing to submit a proposal within eight weeks after receipt of such a request. This proposal by the Executive Board again requires the approval of the Supervisory Board;

d. if the general meeting of shareholders again rejects the proposal as referred to at c of this article 20 paragraph 5, the general meeting of shareholders shall be free to resolve to make an interim distribution.

Objectives as defined in the articles of association

Object
Article 2

2.1 The object of the company shall be to conduct the business of banker on behalf of public authorities.

2.2 In the context of its object as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending moneys, granting credits in other ways, providing guarantees, arranging the flow of payments, conducting foreign exchange transactions, acting as adviser and broker in the issue of and trade in securities, and keeping, managing and administering securities and other assets for third parties, as well as to incorporate and to participate in other enterprises and/or legal persons, whose object is connected with or conducive to any of the foregoing. The company shall be empowered to perform all acts which may be directly or indirectly conducive to its object.

2.3 The term public authorities as referred to in paragraph 1 means:

a. municipalities and other legal persons in the Netherlands under public law as referred to in Article 1, paragraphs 1 and 2, of Book 2 of the Civil Code;
b. the European Communities and other bodies possessing legal personality to which part of the function of the European Communities has been entrusted pursuant to the treaties establishing the European Communities;
c. Member States of the European Communities and other bodies possessing legal personality to which part of the administrative function of such a Member State has been entrusted pursuant to the law of that Member State;
d. legal persons under private law:
   - half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to in a, b and c of this paragraph; and/or
   - half or more of whose share capital is provided directly or indirectly by one or more of the bodies referred to in a, b and c; and/or
   - half or more of the income side of whose operating budget is provided or secured directly or indirectly by one or more of the bodies referred to in a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies; and/or
   - whose operating budget is adopted or approved directly or indirectly by one or more of the bodies referred to in a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies; and/or
   - whose obligations towards the company are guaranteed directly or indirectly by one or more of the bodies referred to in a, b and c or will be guaranteed pursuant to a scheme, bye-law or law adopted by one or more of such bodies, for which purpose obligations include non-guaranteed obligations resulting from

prefinancing or other financing which, after novation, will create obligations that will be guaranteed by one or more of such bodies pursuant to a scheme, bye-law or law adopted by one or more of such bodies; and/or

- who execute a part of the governmental function pursuant to a scheme, bye-law or law adapted by one or more of the bodies referred to in a, b and c.

Other information

7.1 Notes on the materiality analysis and material topics

7.1.1 Materiality analysis

Active dialogue between bank and stakeholders is essential to enable the bank to execute its mission and its core values successfully. The mutual expectations which emerge from regular contacts between the stakeholders and BNG Bank are translated into the perspective analysis which is included in our sustainability policy. Based on this perspective analysis and the social developments, an online survey was held in 2017 among stakeholders of BNG Bank. Shareholders, clients and investors were asked to indicate the importance that they attributed to several topics, while BNG Bank's employees were asked to indicate their relevance for the organisation. The topics which this survey highlighted as being material were then presented, together with the perspective analysis, in a stakeholder meeting in 2017. This was reported in the 2017 Annual Report.

For the purposes of the 2018 Annual Report, it was decided not to organise another survey and stakeholder meeting in 2018 but rather to use the results from the previous year as the basis. The number of material topics has been reduced by clustering to eight clusters, meaning that they have received greater focus in the annual report. Checks were also carried out internally to find out whether any new material topics had come to light in the past period which turned out not to be the case. As the 'Predictability' and 'Fair competition' material topics actually form part of other themes, they were removed. Prompted by the input received, it was decided to designate eight material clusters. The connectivity table shows, for each cluster, which of the material topics has been included. The clusters relate to BNG Bank and BNG Gebiedsontwikkeling. The new classification was approved by the Executive Board.

7.1.2 Materiality matrix

The following figure shows, on a scale of 1 to 5, the importance that internal and external stakeholders attach to the material clusters. This score was calculated using the 2017 scores for the themes numbering among those topics.

Materiality matrix

7.1.3 Notes on material clusters

Attractive products and services

Attractive products and services relate to the price/quality ratio for clients. Another element is the provision of innovative services that are in line with clients' requirements, including in the digital domain. Adequate customer service and complaints' handling are also an important factor. As far as funding is concerned, providing an attractive mix of size and maturities for bonds is important, as is providing sustainable investment products. BNG Bank responds to the interest among investors in sustainable investment opportunities by issuing sustainable bonds, such as SRI Bonds and Social Housing Bonds. This fact is reflected in the breadth of the investor base and the prices to be paid. The market share that it has obtained and its client satisfaction are two ways in which BNG Bank's success in meeting these requirements can be measured.

Promoting sustainability among clients

Client partnership is an important aspect of BNG Bank's public role. We facilitate and stimulate environmentally conscious business operations among clients by financing sustainable investments and providing sustainable products. In particular, we focus on facilitating the energy transition by financing wind and solar energy projects, geothermal energy, biomass and residual heat projects, and by making the housing stock more sustainable.

Responsible performance

BNG Bank aims to provide its shareholders with a reasonable return on the capital that they have invested rather than to maximise profit. We also maintain sound capital ratios which are well above the minimum requirements under the regulations.

Excellent risk profile

To BNG Bank, risk management is a business interest that is crucial to generating added value for Dutch society. In the Risk Appetite Statement, risks are identified and policy formulated on which risks are regarded as acceptable as well as how they should be managed.

Reliability

Clients need to be confident that BNG Bank will not abuse differences in knowledge of financial products; product security – transparent and understandable products, with a clear explanation of how they work – is an underlying principle. Acting with integrity and complying with legislation, regulations as well as corporate governance standards are equally important. BNG Bank has drawn up various procedures and guidelines in this regard.

Data security

Relations also need to be confident that BNG Bank handles the data entrusted to it with due care and that the bank's systems are properly secured. The bank regularly tests the robustness of its systems.

Attractive employer

Motivated employees are instrumental in ensuring effective and efficient business operations, thereby serving the public interest. Sufficient employee training and development opportunities constitute the basis for a strong workforce. BNG Bank endeavours to offer competitive terms of employment. Employee remuneration is based on the salary scale corresponding to the position, irrespective of the employee's gender. The bank pursues an open culture and workforce diversity, including in management roles.

Sustainable operations

BNG Bank is a small organisation which only has one office. The policy within the small-scale organisation focuses on using materials and energy as efficiently as possible and on reducing the CO_2 footprint. BNG Bank aims to operate on a climate-neutral basis by 2020. Supplier sustainability is an aspect that must also be considered in this regard.

7.1.4 Connectivity

The material clusters are linked to the strategic objectives, the objectives for 2018, the GRI Content Index topics relevant to BNG Bank and the Sustainable Development goals in the table below. The complete GRI Content Index is included in the appendix.

MATERIAL TOPIC/ CLUSTER	STAKEHOLDERS	STRATEGIC OBJECTIVE	TARGET 2018	RESULT 2018	SECTION	GRI
Attractive products and services: - Good value for money for services - Service innovations - Customer service/ complaints/ quality of services - Digitisation of services - Sustainable investment possibilities for financiers - Liquidity	- Investors - Clients	Relevant player	Client satisfaction: Roll-out of initial client portal functionalities. Follow-up of recommendations from client survey. Substantial market share in solvency-free lending to core clients: > 55% SRI Bond issues: At least one SRI Bond and one Social Housing Bond. Evaluation of frameworks for assessing the sustainability performance of municipalities and housing associations for SRI Bonds.	Not achieved. Client portal active in 2019. Introduction of Digipass App, tightening of complaints handling procedure. 71% One SRI Bond and one Social Housing Bond issued. Evaluation of frameworks taken place.	What we have achieved in 2018 Funding	GRI 201: Economic performance

MATERIAL TOPIC/ CLUSTER	STAKEHOLDERS	STRATEGIC OBJECTIVE	TARGET 2018	RESULT 2018	SECTION	GRI
Promoting sustainability among clients – Financing of sustainable investments – Energy transition, including greening car use, natural gas-free neighbourhoods and cities, and impact on the climate – Sustainable products for clients	Clients	Relevant player	Lending for sustainable projects: Further increase in loans for sustainable projects	Achieved (see the 'What we have achieved in 2018' section).	'Local authorities' 'Housing associations' 'Healthcare sector' 'Education Energy and infrastructure' 'BNG Sustainability Fund'	GRI 201: Economic performance GRI 203: Indirect economic impacts

MATERIAL TOPIC/ CLUSTER	STAKEHOLDERS	STRATEGIC OBJECTIVE	TARGET 2018	RESULT 2018	SECTION	GRI
Responsible performance – Optimum return/ security	Shareholders	Reasonable return for shareholders	Reasonable return on equity: larger or equals to return criterion set by Ministry of Finance (2018: 4.1%). Composition of long-term loan portfolio: share of promotional loans: At least 90%.	8.5% 92.9%	Financial results Ambitions and outlook for 2019	GRI 201: Economic performance
Excellent risk profile – Controlled operations	– Clients – Investors – Shareholders – Employees				Risk management and compliance Risk Section, Annual accounts	GRI 102: General disclosures
Reliability – Integrity – Quality of information by BNG Bank – Compliance with laws and regulations – Restoring confidence in the financial sector	– Clients – Investors – Shareholders – Employees		Annual report: Financial data in accordance with IFRS 9.	Achieved	Risk management and compliance	– GRI 102: General disclosures – GRI 205: Anti-corruption – GRI 206: Anti-competitive behavior – GRI 415: Public policy – GRI 418: Customer privacy – GRI 419: Socio-economic compliance

MATERIAL TOPIC/ CLUSTER	STAKEHOLDERS	STRATEGIC OBJECTIVE	TARGET 2018	RESULT 2018	SECTION	GRI
Data security – Privacy of client details held at BNG Bank – Cyber security and crime	– Clients – Investors – Shareholders – Employees				Risk management and compliance	GRI 418: Customer privacy
Attractive employer – Attractive work for employees – Pleasant working conditions for employees – Competitive terms of employment for employees – Development opportunities for employees – Responsible remuneration	Employees		Employee commitment: Employee commitment survey.	Not achieved. The employee commitment survey will be carried out in 2019. All employees underwent a culture assessment in 2018.	Employees Workforce Appendix Remuneration policy	GRI 401: Employment GRI 402: Labor/management relations GRI 403: Occupational health and safety GRI 404: Training and education GRI 405: Diversity and equal opportunity GRI 406: Non-discrimination
			Utilisation of available quantity and quality: Encourage meaningful utilisation of available budgets by attractive offer.	Partially achieved. About 50% of the mobility budget and about 80% of the training budget were used.		
			Develop performance management system for employees.	Achieved. System has been modified and will be implemented from 2019 onwards.		

MATERIAL TOPIC/ CLUSTER	STAKEHOLDERS	STRATEGIC OBJECTIVE	TARGET 2018	RESULT 2018	SECTION	GRI
			Promote employee mobility: Programme focused on sustainable employability.	Programme largely comprises opportunities that employees can utilise within the mobility budget.		
			Competitive and reasonable terms of employment: Completion of pilot phase and preparation of action plan.	Achieved.		
			Study of possibilities for making employees' growth in salary scale dependent on personal development.	Not achieved. Priority given to strategic employee planning, culture survey, HR strategy and diversity policy.		
			Diversity: Determine targets for a more even men/women ratio and age structure of the workforce.	Not achieved. Diversity policy will be implemented further in 2019.		

MATERIAL TOPIC/ CLUSTER	STAKEHOLDERS	STRATEGIC OBJECTIVE	TARGET 2018	RESULT 2018	SECTION	GRI
Sustainable operations – Sustainable suppliers/ responsible procurement	– Shareholders – Employees		Social return: Investigate possibilities for Social Return Platform in collaboration with VNG.	Target converted into Global Goals Social Impact Challenge; organised in collaboration with VNG.	Sustainable operations	GRI 305: Emissions GRI 414: Supplier social assessment
			Reduce CO_2 emissions: CO_2 compensation via SOFTS.	– CO_2 emissions 453 tons. CO_2 compensation has not yet been realized. – Phased approach via Softs-points with effect from 2019.		
			Increase level of sustainable procurement: Energy consumption reduced through modification of climate control system.	– Energy and heat consumption decreased. – First changes to the climate system have been implemented.		

7.2 SWOT

Strengths
- Long-term vision possible thanks to twofold relationship with public authorities (client and shareholder) and absence of profit maximisation.
- Lower funding costs and broader access to the capital market because of external rating and status as promotional lender.
- Largest lender to decentralised public sector.

Weaknesses
- Statutory framework placing restrictions on implementation of mission.
- High costs per client due to increasing complexity in laws and regulations combined with size of client base.
- Dependence on capital market due to absence of other forms of funding.

BNG Bank

Opportunities
- Leading role in relation to sustainable investments via project financing, guarantee funds and EU initiatives.
- Leverage public-private partnerships to unburden public authorities by financing infrastructure projects, among other things.
- Partnership with stakeholders to develop new markets and products.

Threats
- Alternative financing options for clients from new institutions in the market.
- Declining price advantage due to current capital market conditions combined with scale of competitors.
- Restriction of client group due to government/public authorities scaling down role as guarantor in combination with statutory restrictions.

7.3 Subsidiaries

7.3.1 BNG Gebiedsontwikkeling B.V.

BNG Gebiedsontwikkeling B.V. is a 100% subsidiary of BNG Bank N.V. The objective of BNG Gebiedsontwikkeling B.V. is to directly or indirectly provide venture or other capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities or institutions affiliated with public authorities.

Management board:	G.C.A. Rodewijk
Visiting address:	Koninginnegracht 2, 2514 AA The Hague
Postal address:	P.O. Box 16075, 2500 BB The Hague
Telephone:	+31 70 3119 900
Email:	info@bnggo.nl

7.3.2 Hypotheekfonds voor Overheidspersoneel B.V.

Hypotheekfonds voor Overheidspersoneel B.V. is a 100% subsidiary of BNG Bank N.V. The objective of Hypotheekfonds voor Overheidspersoneel B.V. is the financing of mortgage loans taken out by civil servants in the employ of an affiliated public or semi-public institution with which a cooperation agreement has been reached.

Management Board:	A.M. Van Oord, T. Wesseling
Visiting address:	Koninginnegracht 2, 2514 AA The Hague
Postal address:	P.O. Box 30305, 2500 GH The Hague
Telephone:	+31 70 3750 619
Email:	bms@bngbank.nl

7.4 BNG Cultuurfonds

The BNG Cultuurfonds promotes art and culture activities that are important for municipalities and municipal policy. This is done by granting subsidy for regular projects in the field of art and culture. In addition, BNG Cultuurfonds stimulates young talent with awards in the field of theatre, literature, youth circus, visual art and dance. There is also an annual prize for municipalities in the field of cultural heritage. More information about the BNG Cultuurfonds may be found on the BNG Bank website.

Support high-quality art and cultural projects	
Result 2017	60 projects realised; agreement with National Youth Orchestra continued.
Target 2018	Continuation of project support and agreement with National Youth Orchestra. Number of projects dependent on project quality and support requested in relation to the available budget.
Result 2018	60 projects realised. More details provided in the Cultuurfonds Annual Report.

Awards in the music, visual arts and dance categories	
Result 2017	Visual arts award not presented in connection with expiry of agreement with De Volkskrant; music and dance awards presented as planned.
Target 2018	Maintain remaining awards.
Result 2018	Presented; more details provided in the Cultuurfonds Annual Report.

Awards for municipal cultural activities	
Result 2017	BNG Heritage Award presented; BNG Long Live Art Award in principle biennial award.
Target 2018	Present BNG Heritage Award and BNG Long Live Art Award.
Result 2018	Presented; more details provided in the Cultuurfonds Annual Report.

Social return	
Result 2017	Decision made to support several concrete projects relating to social return instead of fund.
Target 2018	Investigate possibilities for Social Return Platform in collaboration with VNG.
Result 2018	Target converted into Global Goals Social Impact Challenge; organised in collaboration with VNG.

Appendices

Appendix 1: Reporting principles and data-measuring technique

Reporting principles

With its annual report, BNG Bank renders account of its activities in the past financial year. The annual report represents a balanced and complete analysis of the situation on the balance sheet date, the development and the results during the financial year, and it contains the financial and non-financial performance indicators, including environmental and HR-related matters. In addition, the annual report describes the main risks and uncertainties.

Important laws and regulations, standards and criteria used during the preparation of BNG Bank's Annual Report include:

- Book 2 of the Dutch Civil Code.
- International Financial Reporting Standards (IFRS).
- Dutch Corporate Governance Code (2016 revised version).
- EU Directives
  - 'on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings' (2013/34/EU).
  - 'as regards disclosure of non-financial and diversity information by certain large undertakings and groups' (2014/95/EU).
- Integrated Reporting.
- Global Reporting Initiative (GRI) Standards.
- Transparency Benchmark.
- International CSR guidelines such as the UN Global Compact, Sustainable Development Goals, OECD Guidelines for Multinational Enterprises and the Equator Principles.

The information contained in the annual report is in line with the following principles (following the GRI standards). The reported information is:

- Relevant – account has been taken of the objectives pursued and the decision-making requirements of the report's users. Sustainability sections are relevant to those requirements. This information is obtained by means of a materiality analysis.
- Complete – all relevant sustainability sections have been included in the report to enable comprehensive and meaningful communication. Regular assessments are made to establish whether any amendments are required as a result of changes within the organisation or activities in order to maintain completeness. Any omission is disclosed and justified.
- Consistent – it is possible to make a meaningful comparison of sustainability sections over time. Approaches, limits and calculation methods as well as any changes are mentioned to ensure the consistent application of accounting.

- Accurate – care has been taken to ensure that the information included in the report is sufficiently accurate to enable decision-making by users.
- Transparent – users of the report have been provided with sufficient and suitable sustainability sections to ensure that they can make decisions with a reasonable degree of certainty. BNG Bank determines the scope, as well as the matters that are left out or those that are specifically taken into account. The report sets out the positive and negative aspects of BNG Bank's performance to ensure that readers can make a reasoned assessment of its overall performance. An audit trail is maintained to aid quantification. The advance setting of the KPIs on which must be reported, combined with the topics identified by the stakeholders as being material, gives users of the report information that is relevant and as objective as possible.

Within reason, the expectations and interests of stakeholders are an important point of reference for decisions on matters such as scope, limits, KPIs and assurance when sustainability reports are drawn up.

Information about the results is placed in the context of sustainability and is accompanied by an indication of BNG Bank's current or future contribution to improving economic, environmental and social circumstances, as well as how the bank is responding to developments and trends at the local, regional or global level.

Data-measuring technique for CSR reporting purposes

Sources of data include staff records, financial reports, incident registration, the registration of reports from internal confidential counsellors and Compliance/the Compliance Officer, and the consumption records of Facility Management.

Assumptions/estimates have been made in calculating the organisation's CO_2 footprint. The number of kilometres driven by employees in their own cars for business purposes is not known. However, this hiatus is amply compensated in the conservative estimate made for the private use of leased cars (10,000 km/year).

In terms of accuracy, BNG Bank deems the inherent limitations attached to the estimates as non-material.

BNG Bank uses 2010 as the baseline year for its CO_2 emissions – the year in which the bank began registering its emissions on an annual basis. The bank's CO_2 footprint is calculated using operational control instruments. All business units that fall within the bank's operational control are included in its CO_2 footprint. Through to 2012, BNG Bank applied the international conversion factors stated in the Greenhouse Gas (GHG) Protocol, those of the Department for Environment, Food and Rural Affairs (Defra in the UK), and those set out in the EC IPPC (Industrial Emissions) Directive. Since BNG Bank operates on the Dutch market, it was decided in 2013 no longer to apply the international conversion factors but from now on to use instead the standard conversation factors generally accepted in the Netherlands in accordance with the CO_2 performance ladder, barring one exception. Green power is extrapolated as being climate-neutral (0 grams CO_2/kWh). In the annual report, CO_2 emissions generated by district heating have been calculated since 2016 on the basis of the STEG emissions factor applied by the supplier (46.2 kg/GJ).
In contrast to the CO_2 performance ladder, business flights are attributed to Scope 3 in

accordance with the GHG protocol (indirect GHG emissions caused by the business activities of another organisation.

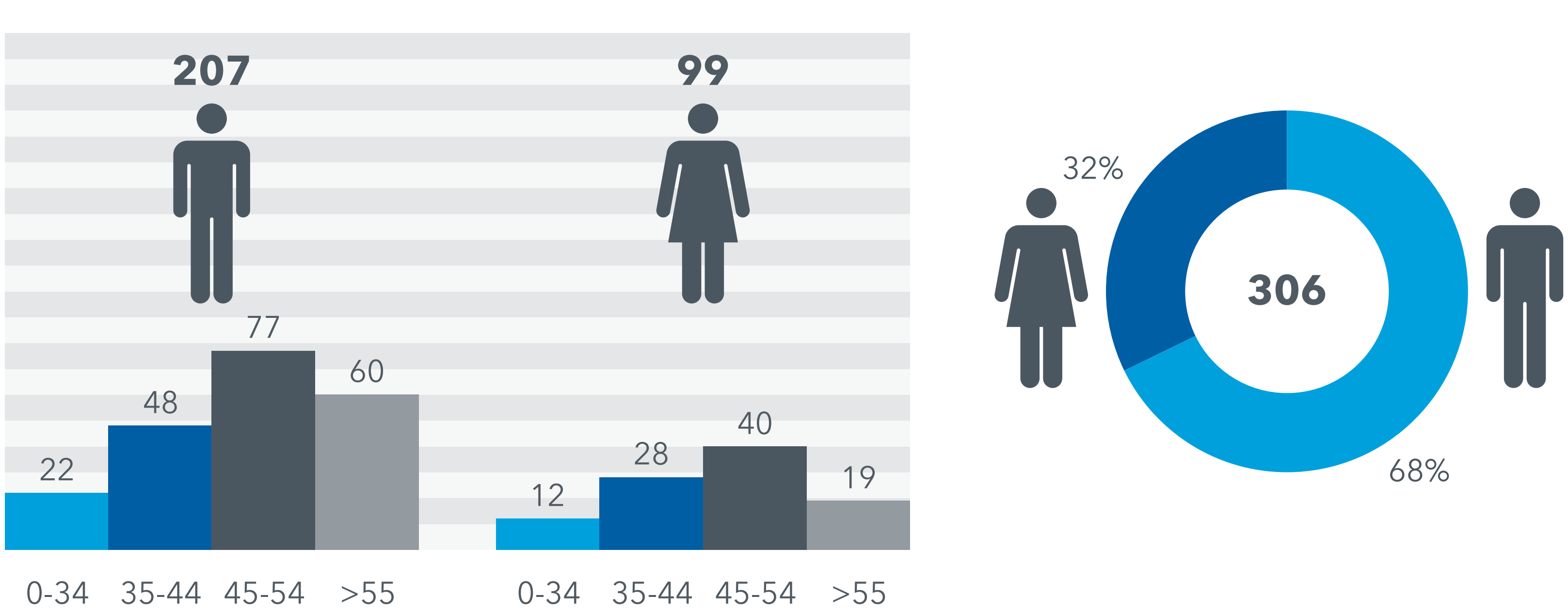
The CSR information is audited internally and by an external party.

Appendix 2: Workforce

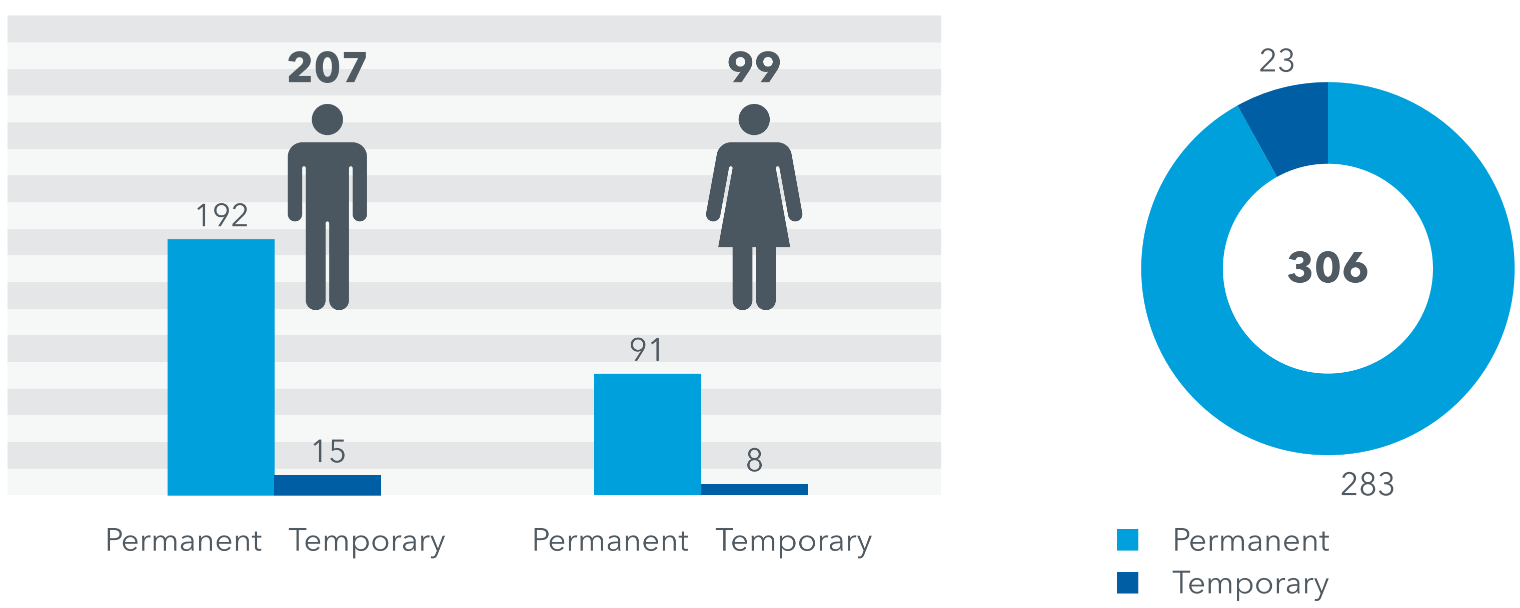
In 2018, the number of employees working for BNG Bank and its subsidiaries fell by 2 (1 FTE) to 306 (302 FTEs). Of the 306 employees, 207 are men (68%) and 99 women (32%). In 2018, BNG Bank had 36 managers, 10 of whom are women (28%). We also have 13 (13.1 FTEs) external employees occupying formal staff positions and 51 external employees who do not occupy such positions. BNG Bank has 295 employees working for it. The subsidiary BNG Gebiedsontwikkeling has 11 employees. The subsidiary BNG Hypotheekfonds voor Overheidspersoneel has no employees. BNG Bank has one branch. All employees work at this location. In 2018, 16 people (5%) commenced employment and 18 (6%) left the organisation. The standard notice period laid down in the Collective Labour Agreement for the Banking Industry is two months. Ten employees changed jobs internally. At more than 47 years, the average age of the workforce has remained virtually unchanged relative to last year. The average length of service of the workforce is more than 14 years.

The right to parental leave is regulated in the Collective Labour Agreement for the Banking Industry. Twenty-three employees (fourteen men and nine women) made use of the parental leave scheme, all of whom returned to their positions. Of all BNG Bank employees, 96% are covered by the Collective Labour Agreement for the Banking Industry. The Management Board (see the 'Corporate Structure' section) and the Executive Board members, totalling eleven employees, are not covered by that Collective Labour Agreement. All employees participate in the pension scheme. BNG Bank as employer contributes 17.43% to employees' pensions, employees contribute 7.47%. All figures mentioned here are as of the end of the year 2018.

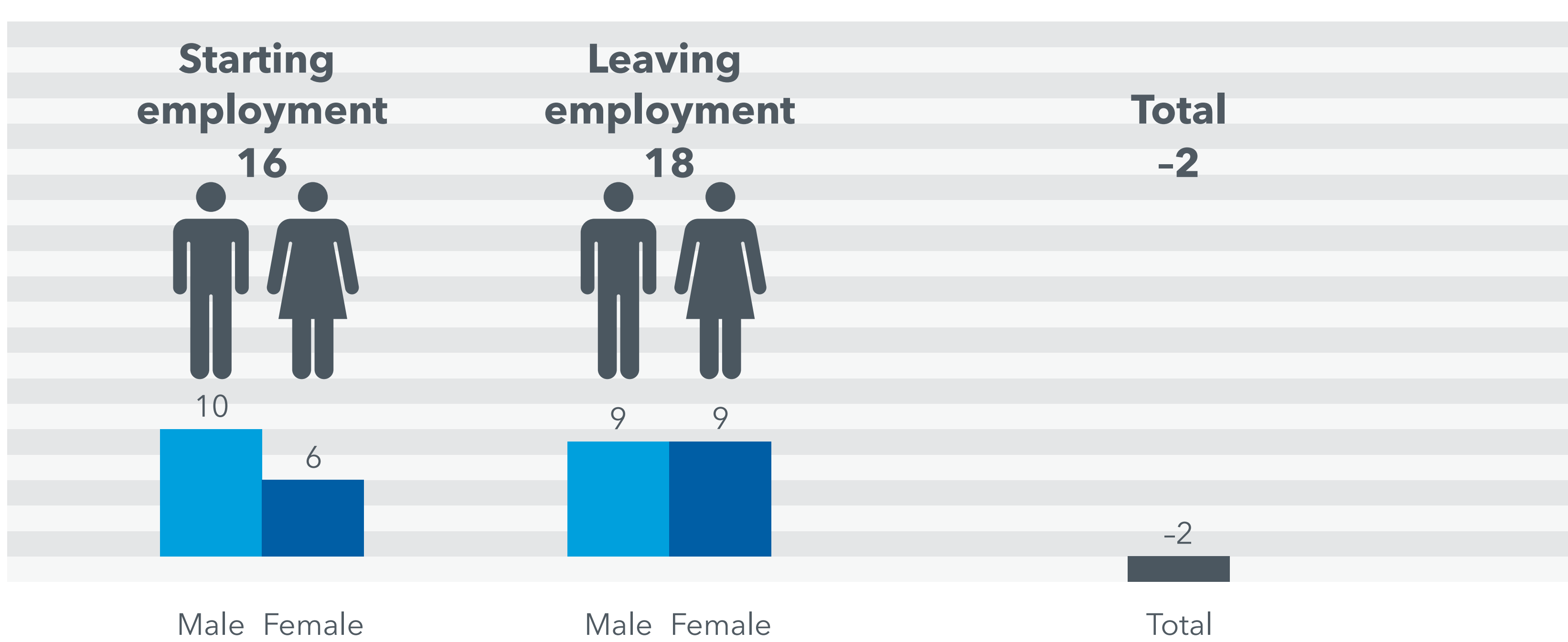
Employees by age group and gender



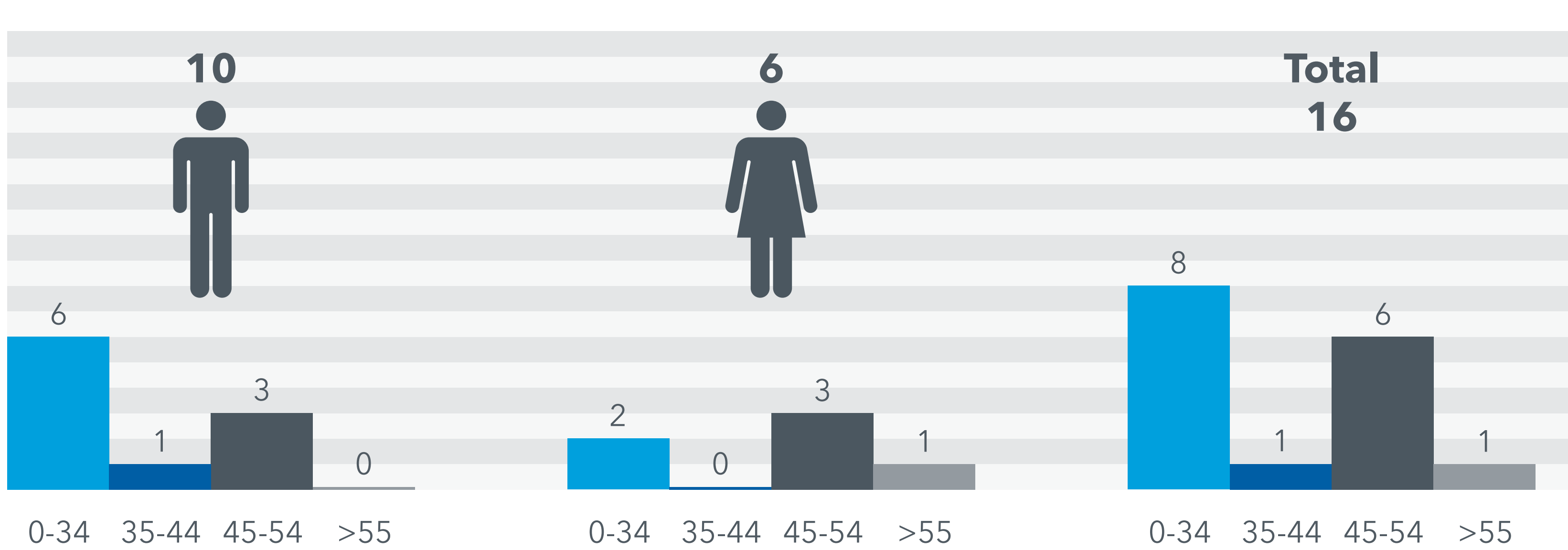
Employees by contract type



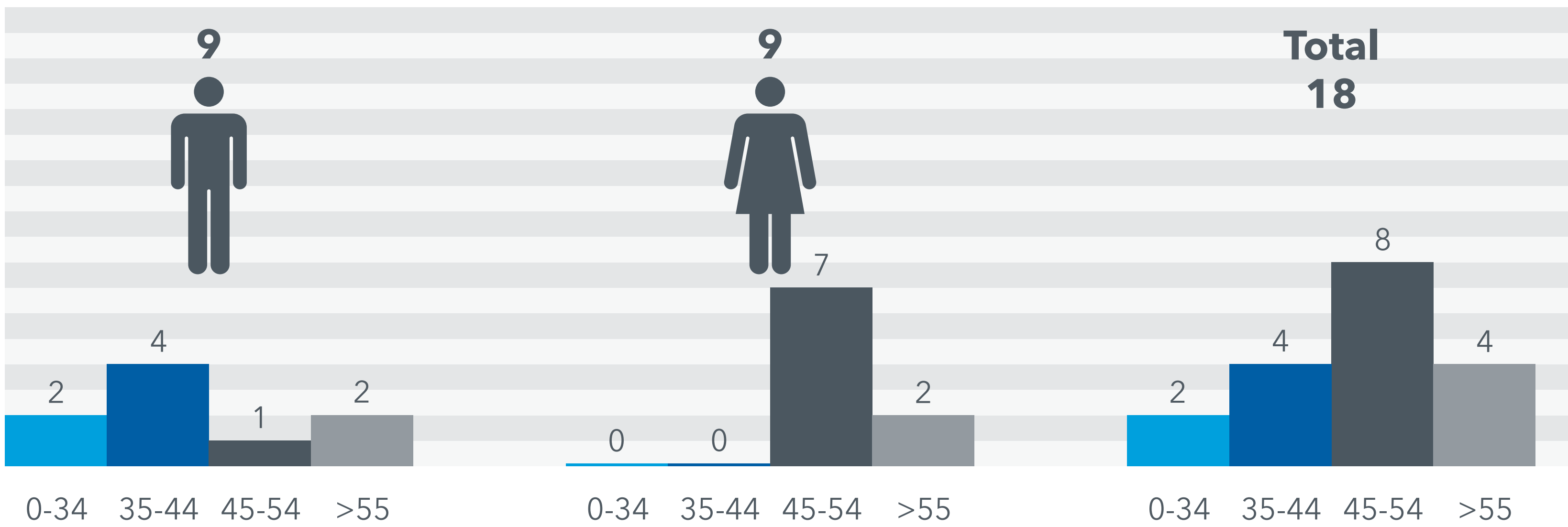
Inflow and outflow of employees



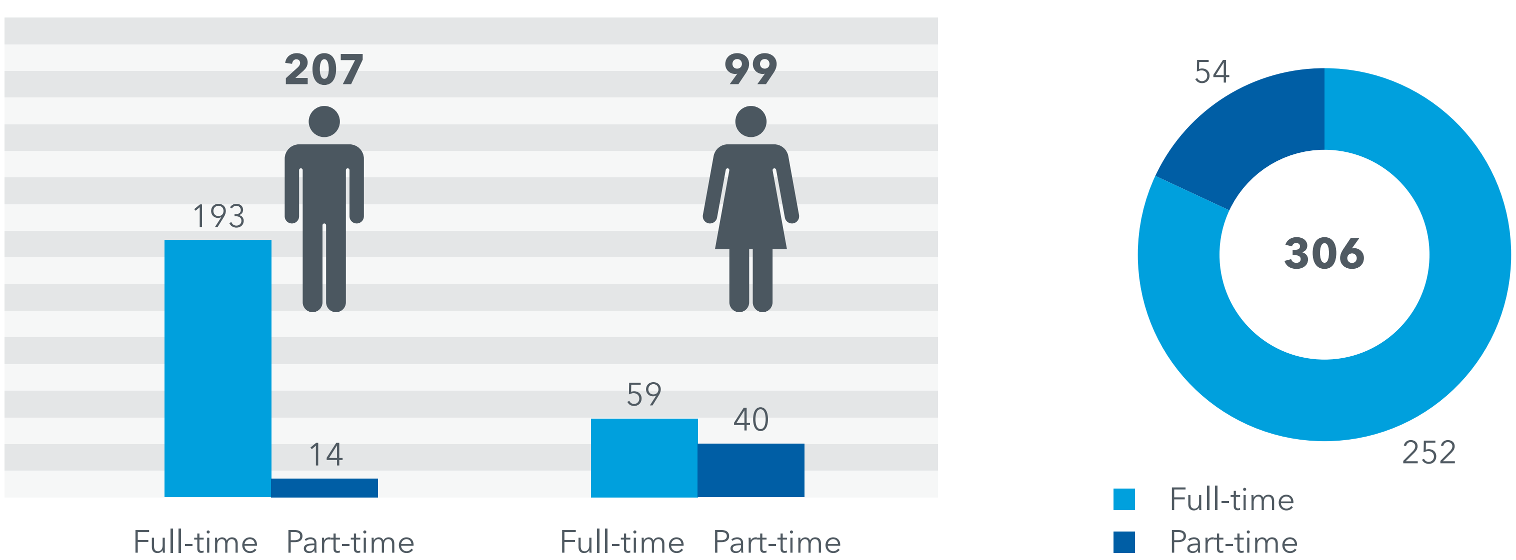
Inflow of employees by age group



Outflow of employees by age group



Employees by full-time and part-time

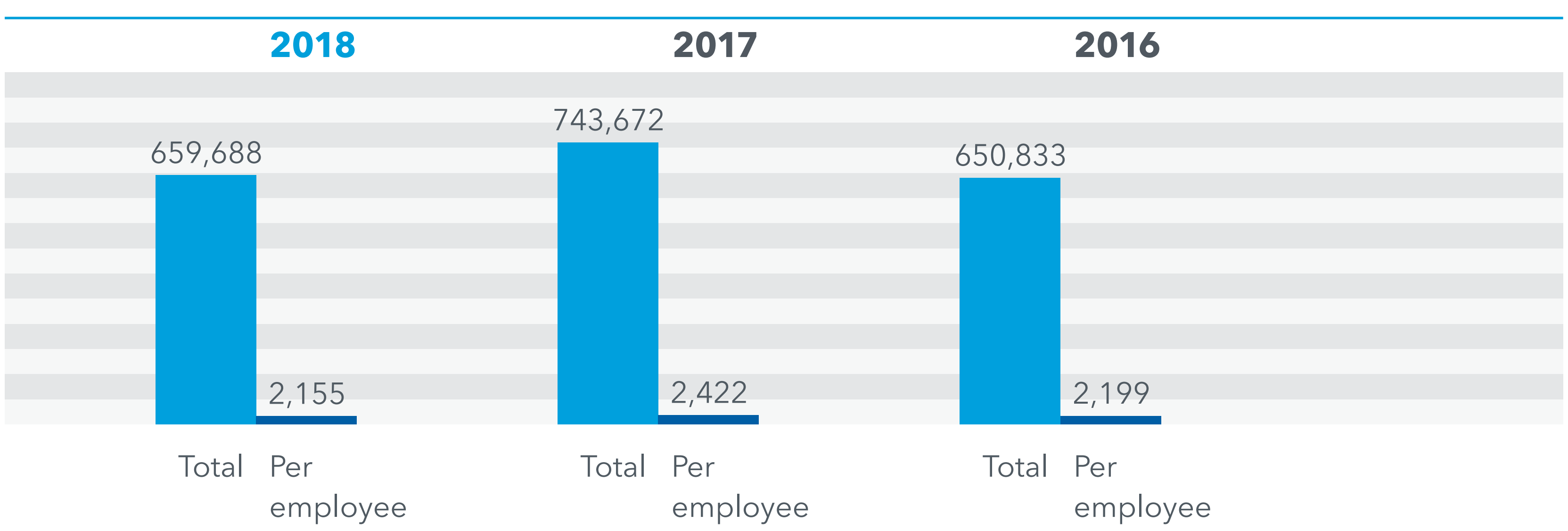


FTE value – women: 0.92 FTE; FTE value – men: 1.02 FTE

Training and education

Training costs

(in euros)



Hours of training on in-house courses

	2018
Number of in-house courses	11
Total number of participants	785
Total number of hours	4,778
Total number of hours for in-house courses per participant	6
Average number of in-house courses per employee	2.6

The following in company trainings were held in 2018:
- Feedback training.
- Yellow, Green and Black belt training.
- Dilemma training.
- Bitcoin & Blockchain.
- Workshop Transition.
- Stop smoking.
- Knowledge program BNG Bank.
- Advanced Banking Course.
- Writing loan proposals and revisions.

Career interviews, budget for mobility and long-term employability, coaching and vitality leave are used to promote long-term employability of employees. All employees are periodically (at least annually) assessed on performance and career development. Employees who retire can follow the 'Pension into view' course. Employees whose employment is terminated can receive coaching and outplacement guidance. No distinction is made between gender and category of employee.

Absenteeism

The sickness absenteeism rate stood at 3.3% in 2018 (2017: 3.0%) and is therefore above the internal standard of 3.0%. This rate is above the average for the financial services sector (less than 3% for the period from the fourth quarter of 2017 to the third quarter of 2018). Employees of BNG Bank report sick more often than in previous years. Absence due to illness also takes a little longer on average. The higher absenteeism was caused, among other things, by the inclusion of the second year of illness in the absenteeism figures. Absenteeism is largely determined by a small number of long-term absent employees, usually involving a medical cause. Our approach to absenteeism continues to be focused on prevention.

Discrimination

No discriminatory incidents were reported in 2018. The procedure for reporting incidents is included in the BNG Company Code and in the policy on inappropriate behaviour. Furthermore, employees can make use of confidential counsellors.

Occupational health and safety

BNG Bank has an occupational health and safety (OHS) system based on the Working Conditions Act (Arbowet). All internal and external employees are covered by this system.

Identification of hazards, risk assessment and incident investigation

Processes used to identify work-related hazards and assess risks are the Risk Inventory and Evaluation (RI&E) and the policy on inappropriate behaviour. Reports of occupational diseases by the company medical officer aim at eliminating hazards and minimising risks. To monitor the quality of processes and the skills of the people executing the processes BNG Bank uses certified Occupational Health and Safety Service and certified prevention officers, company emergency response team members and confidential counsellors. Evaluation and improvement of processes are conducted by discussing the RI&E action plan with the Works Council every six months, frequent meetings with the Occupational Health and Safety Service, regular company emergency response drills, and Fire Service checks. Employees can report on work-related hazards and dangerous situations through an incident reporting procedure, internal and external confidential counsellors, consultations aimed at preventing harm to health with the company medical officer and staff welfare officer. Employees may remove themselves from situations at work if they think that they are likely to cause injury or harm to health. Protection of employees against reprisals is one of the basic principles included in policy, as it is in the whistle blower policy and the regulations on inappropriate behaviour. To identify and investigate work-related incidents as well as to identify corrective measures and improvements internal audits are conducted. If there are incidents, these will be discussed in the Management Board.

Provision of occupational health and safety services

BNG Bank has a contract with an occupational health and safety service provider. The tasks and responsibilities of the occupational health and safety service in case of employee illness are laid down in the contract. Employees are registered with the Employee Insurance Agency (UWV) when the duration of an illness reaches 42 weeks. Employees have the option to avail themselves of consultations with the company medical officer and staff welfare officer. Those consultations are held in-house at BNG Bank. The company medical officer can be consulted once a week and the staff welfare office once a fortnight. The frequency of the consultation is tailored to the number of sickness reports and the requirements of employees. The Social Medical Team meeting takes place every quarter. The rehabilitation options for employees on long-term sickness absence are discussed and recorded in the Gatekeeper file during that meeting. The quality of the occupational health and safety service provision is guaranteed through using a certified occupational health and safety service and holding regular evaluation discussions with the occupational health and safety service.

Employee participation, consultation and communication in respect of the occupational health and safety system

The Works Council represents employees, pursues BNG Bank policy and consults with the Executive Board on these matters. The Works Council's OHS Committee (the Safety, Health, Welfare and Environment Committee, VGWM) meets to discuss changes in law as well as changes related to occupational health and safety within BNG Bank. The VGWM Committee meets every six months to discuss the RI&E action plan and the OHS Annual Plan. The Works Council's approval is requested in case of any adoption, amendment or withdrawal of a regulation pertaining to working conditions, sickness absence or rehabilitation policy. Four employees (1.3% of the total workforce): Two works council members, a health and safety officer and the Manager HR are represented on the VGWM Committee. Communication about and employees' access to relevant information on occupational health and safety takes place via the intranet.

Occupational health and safety training courses

No, or virtually no, specific work-related hazards, dangerous activities or dangerous situations affecting employees have occurred. Confidential counsellors take part in a permanent education programme to retain their certification. Company emergency response team members take part in regular drills. Health and safety officers keep up to date with current developments in their areas of expertise. Evacuation drills are conducted on a regular basis.

A mobility budget is available to employees, among other things including a bicycle scheme, a company fitness programme, chair massage, regular health checks and preventive physiotherapy.

Work-related accidents and health problems

No work-related accidents occurred in 2018. There are no, or virtually no, risks that could give rise to a work-related injury. Information about using the workstations and equipment is given to employees in order to limit risks and prevent work-related injuries.

Several employees experienced work-related health problems. Burnout/nervous breakdowns and complaints related to posture or locomotor system are the main work-related health problems. Work pressure, sitting for long periods and sitting for long periods in front of a computer screen are work-related hazards constituting a risk to health. The regular RI&E is used to identify such hazards. Measures taken to eliminate those hazards and minimise the risks are capacity management (regular discussion of the staff level required versus the work supply), the use of height-adjustable desks, measurement of perceived work pressure, the use of chair massages and preventive physiotherapy, and workstation evaluations.

Appendix 3: Glossary

This glossary is to clarify specific terms used in the Annual Report.

B

Basel III:

A global regulatory agreement developed by the Bank for International Settlements (BIS), setting out specific provisions concerning risk, capital and liquidity management within the banking sector. Basel III follows on from Basel II after banks were found to run risks that could not be covered due to the capital requirements imposed in that agreement. Basel III is to enter into full force effective 2019.

C

Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR):

These documents form the capital implementation framework for the Basel Accord for credit and investment institutions in the European Union. The difference between the CRR and the CRD is that the CRR is fully applicable to each Member State, while the CRD offers institutions some room to implement the provisions at their own discretion.

Capitalisation policy:

The conditions set by BNG Bank for the growth and size of its equity in relation to the its activities and the applicable regulations.

Common Equity Tier 1 Ratio (in accordance with Basel III):

The CET1 ratio is the ratio of a bank's core equity capital (share capital plus reserves) to its total risk-weighted assets. It indicates the degree of a bank's loss absorption capacity. Assets are assessed in proportion to the risk. Loans granted to or guaranteed by the Dutch government authorities are therefore regarded as virtually free of credit risk.

Company Code:
The Company Code describes the conduct which BNG Bank requires from its employees and describes the manner in which BNG Bank desires to address integrity. This Company Code provides that staff must exercise due care and respect in collaborating with internal as well as external stakeholders and look after their interests in a responsible manner.

Company financial statements:
Company financial statements are separate financial statements presented by the parent company, containing the parent company's annual figures in which investments in associates are valued for accounting purposes on the basis of the direct shareholding.

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

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

Core client sectors:
The sectors on which BNG Bank focuses in particular: local authorities, housing associations, healthcare institutions and educational institutions.

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

Corporate Social Responsibility (CSR):
Business activities focused on the longer term and value creation in three dimensions, i.e. market, people and the environment.

Creditworthiness:
The degree of certainty that an institution is always capable of meeting its financial obligations.

Customer Due Diligence Policy (CDD):
A policy to ensure that financial institutions know their clients and do not enter into relationships with persons that may harm confidence in the financial institution.

D

Dutch Banking Code:
This code contains principles with regard to focus on the client, corporate governance (Supervisory Board, Executive Board), risk management, audit and remuneration policy. The Dutch Banking Code was adopted in 2009 by the Dutch Banking Association (Nederlandse Vereniging van Banken, NVB) and took effect on 1 January 2010. All banks in the Netherlands have endorsed this code. Banks set out in their annual reports how they applied the principles in the preceding year and, where applicable, explain why a principle may not have been observed, either in full or in part.

Dutch Corporate Governance Code:
Guidelines for effective cooperation and management. The Code, which was first adopted in 2003 and revised in 2008 as well as 2016, contains provisions governing the relationship between the Executive Board, the Supervisory Board and shareholders.

Duty of care:
The relationship between a bank and its clients often involves a difference in levels of expertise. The average client will have less knowledge about certain products offered by a bank than the bank itself. The bank has a duty of care when entering into a relationship with a client and when subsequently providing services. Clients have a responsibility of their own in using those services.

E

Equity:
Equity consists of share capital, hybrid capital, the share premium reserve, revaluation reserve, cash flow hedge reserve, other reserves and unappropriated profit (also referred to as the net profit for the current financial year).

F

FTE:
The abbreviation for full-time equivalent, a unit to measure employed persons or the workforce in a way that makes them comparable although they may work a different number of hours per week. Within BNG Bank, one FTE represents one employee with a full-time working week of 36 hours.

G

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

I

Integrated Reporting:
Reporting framework originating from the International Integrated Reporting Council (IIRC). Integrated Reporting results in an integrated report covering value creation: the external environment influencing the organisation, the incoming and outgoing resources (namely financial, produced, intellectual, human, social/relational and natural resources), and the way that the organisation interacts with the external environment in the short, medium and long term. The value creation model is used to record the results.

Integrity:
Acting with due care towards others while observing responsibilities and applicable rules, in a morally responsible manner and on the basis of generally accepted social and ethical norms.

Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP):
Comprehensive risk assessment by the credit institution of all the risks to which it is or could be exposed. These processes provide insight into the degree to which the risks are mitigated and the amount of capital or liquidity required to cover the residual risk.

International Capital Markets Association (ICMA):
ICMA develops standards and rules to promote the functioning of the international capital markets.

International Financial Reporting Standards (IFRS):
The accounting standards for the annual reports of companies.

L

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

Loan capital:
The sum of the short-term debts and the long-term debts.

Loans not subject to solvency requirements:
Loans for which the bank is not required to maintain own capital, because the regulator (the Dutch Central Bank) regards them as virtually free of credit risk (also see Risk-free lending').

Loans subject to solvency requirements:
Loans for which the bank must maintain a certain quantity of own capital pursuant to regulations, as a buffer for the risk that the loan is not repaid (also see 'Risk-bearing lending').

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

M

Material topics:
Topics identified using the 'materiality analysis' which are sufficiently important to be reported on in the annual report. Whether or not a topic is material depends on the extent to which it influences stakeholders' assessments and decision-making as well as the degree of economic, ecological and social impact.

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

Market share:
BNG Bank's scoring percentage in the credit demand known to the bank from local authorities, housing associations and healthcare institutions.

P

Promotional loan:
A loan granted by a promotional bank or through an intermediate bank on a non-competitive, non for profit basis, in order to promote the public policy objectives of central or regional governments in a Member State.

Public-private partnership:
The development and completion of projects undertaken jointly by public authorities and private parties, in which revenues and risks are shared.

R

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

Risk appetite:
The predetermined aggregated level and the types of risk that the bank is prepared to accept in order to achieve its strategic objectives.

Risk management and risk control:
Identifying and controlling the potential risks associated with the bank's business operations.

Risk profile of an institution:
The extent to which an institution is exposed to risks. The ratings awarded by the external rating agencies are an important indicator for the risk profile.

S

Services of general economic interest:
Services of general economic interest are economic activities that serve a public interest and cannot usually be performed in a cost-effective manner. For that reason, companies that are under an obligation to perform Services of general economic interest are entitled to compensation. The Housing Act identifies the Services of general economic interest for housing associations: these are activities concerning public-sector rented housing and certain types of public real estate, as well as specific quality of life services. The activities concerned are among the housing associations' core tasks.

Scope 1:
Direct GHG emissions from sources that are owned or controlled by an organization.

Scope 2:
GHG emissions that result from the generation of purchased or acquired electricity, heating, cooling and steam consumed by an organisation.

Scope 3:
Indirect GHG emissions not included in energy indirect (Scope 2) GHG emissions that occur outside of the organisation, including both upstream and downstream emissions.

Social Housing Bond:
A sustainable bond issued by BNG Bank. The available resources are used for sustainable activities within the social rental sector.

Solvency:
The ability to perform financial obligations and absorb losses, measured against equity and liability capital, respectively.

SRI Bond:
Sustainable bond with which sustainable municipalities are financed.

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

Stakeholder dialogue:
Meetings with stakeholders where mutual expectations and current topics are discussed, and where material topics are assessed and validated.

Sustainable:
BNG Bank considers an activity sustainable if it contributes to a positive long-term total impact in the ecological, socio-cultural and economic domains.

Sustainable bond:
Bond of which the funds arising from the issuance of the bond are only used for sustainable projects.

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

T

Three lines of defence model:
Organisational model for managing risks within financial institutions and an important element of governance. The model is a well-established approach to risk management and internal control that helps organizations to strengthen, clarify and coordinate their core functions in governance, risk management, internal control and responsibilities.

Tier 1 ratio (in accordance with Basel III):
The Tier 1 ratio indicates the bank's solvency weighted according to risk. The ratio consists of Tier 1 capital divided by all risk-weighted assets. Tier 1 capital consists of Common Equity Tier 1 (CET1) capital plus the additional Tier 1 and Tier 2 capital. Tier 1 capital consists of the bank's equity excluding the profit for the current financial year and the cash flow hedge reserve, and is also adjusted for the phasing in of the revaluation reserve and other prudential filters. In addition, an adjustment is also made for securitisations with a risk weighting of 1250%. The additional Tier 1 capital consists of hybrid capital that is qualified as additional Tier 1 capital under Basel III.

Two-tier structure:
Two-tier board model where management and supervision are divided between two bodies, to wit the Executive Board and the Supervisory Board.

V

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

Appendix 4: GRI Content Index (comprehensive option)

GRI 100 Universal standards

GRI 102: General Disclosures 2016

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
1. Organisational profile					
GRI 102-1	Name of the organisation	Corporate structure	41		
GRI 102-2	Activities, brands, products, and services	Profile	12	– About BNG Bank – Profile – Sustainability policy	
GRI 102-3	Location of headquarters	Corporate structure	41	Contact	
GRI 102-4	Location of operations	Corporate structure	41	– About BNG Bank – Profile	
GRI 102-5	Ownership and legal form	Corporate structure	41	– Profile – Corporate governance	
GRI 102-6	Markets served	What we have achieved in 2018	19	Profile	
GRI 102-7	Scale of the organisation	Selected financial data	5	Profile	

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 102-8	Information on employees and other workers	– Workforce Appendix – Reporting principles and data-measuring technique Appendix	290 287		
GRI 102-9	Supply chain	Sustainable operations	55		
GRI 102-10	Significant changes to the organisation and its supply chain	Corporate structure	41		
GRI 102-11	Precautionary Principle or approach	Risk section	163	Sustainability policy	
GRI 102-12	External initiatives	Risk management and compliance	46		
GRI 102-13	Membership of associations	Corporate structure	41		
2. Strategy					
GRI 102-14	Statement from senior decision-maker on sustainability	– Contributing to new financing solutions – Profile	7 12		
GRI 102-15	Key impacts, risks and opportunities	– Strategy – What we have achieved in 2018 – Risk section – SWOT	14 19 163 282	Sustainability policy	
3. Ethics and integrity					
GRI 102-16	Values, principles, standards and norms of behavior	– Profile – Employees – Risk management and compliance	12 50 46	– Sustainability policy – BNG Bank Company Code	

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
3. Ethics and integrity					
GRI 102-17	Mechanisms for advice and concerns about ethics	Risk management and compliance	46	– BNG Bank Company Code – Complaints procedure	
4. Governance					
GRI 102-18	Governance structure	– Corporate structure – Report of the Supervisory Board	41 60	– Supervisory Board – Executive Board	
GRI 102-19	Delegating authority	Corporate structure	41	Organisation and management	
GRI 102-20	Executive-level responsibility for economic, environmental and social topics	Corporate structure	41	– Sustainability policy – Organisation and management	
GRI 102-21	Consulting stakeholders on economic, environmental and social topics	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273	Sustainable	Consulting stakeholders is done by the highest governance body and is not delegated.
GRI 102-22	Composition of the highest governance body and its committees	– Corporate structure – Composition of the Supervisory Board and Committees	41 62	– Supervisory Board – Executive Board	
GRI 102-23	Chair of the highest governance body	– Corporate structure – Report of the Supervisory Board	41 60	– Supervisory Board – Executive Board	

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 102-24	Nominating and selecting the highest governance body	Composition of the Supervisory Board and Committees	62	Organisation and management	The selection and appointment procedures for Executive Board and Supervisory Board members are not published externally.
GRI 102-25	Conflicts of interest	– Risk management and compliance – Corporate structure – The Supervisory Board in 2018	46 41 67	– Executive Board Regulations – Supervisory Board Regulations – BNG Bank Company Code – Composition Executive Board – Supervisory Board register of additional positions	
GRI 102-26	Role of highest governance body in setting purpose, values and strategy	– Contributing to new financing solutions – Strategy – Value creation and materiality – Corporate structure – The Supervisory Board in 2018	7 14 16 41 67	– Executive Board – Supervisory Board – Executive Board Regulations – Supervisory Board Regulations	
GRI 102-27	Collective knowledge of highest governance body	– The Supervisory Board in 2018 – Composition of the Supervisory Board and Committees	67 62	– Executive Board – Supervisory Board	– The Executive Board's succession plan is under development. – Succession plans are not published externally.

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 102-28	Evaluating the highest governance body's performance	The Supervisory Board in 2018	67	– Executive Board – Supervisory Board – Executive Board Regulations – Supervisory Board Regulations	
GRI 102-29	Identifying and managing economic, environmental and social impacts	– Value creation and materiality – Risk section – Contributing to new financing solutions – The Supervisory Board in 2018	16 163 7 67	– Executive Board – Supervisory Board – Executive Board Regulations – Supervisory Board Regulations	
GRI 102-30	Effectiveness of risk management processes	– Risk section – The Supervisory Board in 2018	163 67	– Executive Board Regulations – Supervisory Board Regulations	
GRI 102-31	Review of economic, environmental and social topics	– Risk section – The Supervisory Board in 2018	163 67	– Executive Board – Supervisory Board – Executive Board Regulations – Supervisory Board Regulations	
GRI 102-32	Highest governance body's role in sustainability reporting	– Value creation and materiality – Notes on the materiality analysis and material topics – Corporate structure – What we have achieved in 2018	16 273 41 19	Sustainability	

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 102-33	Communicating critical concerns	– Risk section – Risk management and compliance	163 46	– Executive Board Regulations – Supervisory Board Regulations and Risk Management Charter – BNG Bank Company Code	
GRI 102-34	Nature and total number of critical concerns	– Risk section – Risk management and compliance	163 46	BNG Bank Company Code	
GRI 102-35	Remuneration policies	Remuneration policy	53	Remuneration policy	
GRI 102-36	Process for determining remuneration	Remuneration policy	53	Remuneration policy	
GRI 102-37	Stakeholders' involvement in remuneration	Remuneration policy	53	Remuneration policy	
GRI 102-38	Annual total compensation ratio	Remuneration policy	53	Remuneration policy	
GRI 102-39	Percentage increase in annual total compensation ratio	Remuneration policy	53	Remuneration policy	

5. Stakeholder engagement

GRI 102-40	List of stakeholder groups	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 102-41	Collective bargaining agreements	Workforce Appendix	290		
GRI 102-42	Identifying and selecting stake-holders	Value creation and materiality	16		
GRI 102-43	Approach to stake-holder engagement	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		
GRI 102-44	Key topics and concerns raised	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		
6. Reporting practice					
GRI 102-45	Entities included in the consolidated financial statements	– Financial statements – Subsidiaries	76 283		
GRI 102-46	Defining report content and topic boundaries	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		
GRI 102-47	List of material topics	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 102-48	Restatements of information	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		
GRI 102-49	Changes in reporting	– Value creation and materiality – Notes on the materiality analysis and material topics	16 273		
GRI 102-50	Reporting period	Annual report 2018	–		
GRI 102-51	Date of most recent report			Annual report 2017	
GRI 102-52	Reporting cycle	Annual report 2018	–		
GRI 102-53	Contact point for questions regarding the report	Colophon	324		
GRI 102-54	Claims of reporting in accordance with the GRI Standards	GRI content index	304		
GRI 102-55	GRI content index	GRI content index	304		
GRI 102-56	External assurance	Assurance report of the independent auditor	250		

GRI 200 Economic standards

GRI 201: Economic performance 2016

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 103-1	Explanation of the material topic and its boundary	Notes on material clusters (Attractive products and services)	274		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Financial results	20		
GRI 201-1	Direct economic value generated and distributed	– Selected financial data – Financial statements	5 76		
GRI 201-2	Financial implications and other risks and opportunities due to climate change				Omission: analysis is not available. In the coming years BNG Bank will put this in place.
GRI 201-3	Defined benefit plan obligations and other retirement plans	– Remuneration – Workforce Appendix	197 290		
GRI 201-4	Financial assistance received from government	Corporate structure	41		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES

GRI 203: Indirect economic impacts 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on material clusters (Attractive products and services, Promoting sustainability among clients)	274		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	What we have achieved in 2018	19		
GRI 203-1	Infrastructure investments and services supported	– Strategy – What we have achieved in 2018	14 19	Sustainability	
GRI 203-2	Significant indirect economic impacts	– Profile – What we have achieved in 2018	12 19		Omission: the largest part of the financing by BNG Bank concerns balance sheet financing for which no substantiation is requested. For this reason, it is not possible to specify the exact impact.

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES

GRI 205: Anti-corruption 2016

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 103-1	Explanation of the material topic and its boundary	Notes on material clusters (Reliability)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Risk management and compliance	46		
GRI 205-1	Operations assessed for risks related to corruption	Risk management and compliance	46	BNG Bank Company Code	
GRI 205-2	Communication and training about anti-corruption policies and procedures	Risk management and compliance	46		
GRI 205-3	Confirmed incidents of corruption and actions taken	Risk management and compliance	46		

GRI 206: Anti-competitive behavior 2016

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 103-1	Explanation of the material topic and its boundary	Notes on material clusters (Reliability)	275		
GRI 103-2	The management approach and its components	Management cycle	45		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 103-3	Evaluation of the management approach	Risk management and compliance	46		
GRI 206-1	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	Risk management and compliance	46		

GRI 300 Environmental standards

GRI 305: Emissions 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on material clusters (Sustainable operations)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Sustainable operations	55		
GRI 305-1	Direct (Scope 1) GHG emissions	– Reporting principles and data-measuring technique Appendix – Sustainable operations	287 55		Omission: biogenic CO_2 emissions not applicable. Reference year not applicable

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 305-2	Energy indirect (Scope 2) GHG emissions	– Reporting principles and data-measuring technique Appendix – Sustainable operations	287 55		Omission: reference year not applicable
GRI 305-3	Other indirect (Scope 3) GHG emissions	– Reporting principles and data-measuring technique Appendix – Sustainable operations	287 55		Omission: biogenic CO_2 emissions not applicable Reference year not applicable.
GRI 305-4	GHG energy intensity	– Reporting principles and data-measuring technique Appendix – Sustainable operations	287 55		
GRI 305-5	Reduction of GHG emissions				Omission: cannot be specified by measure.
GRI 305-6	Emissions of ozone-depleting substances (ODS)				Omission: not applicable, given the type of organisation.
GRI 305-7	Nitrogen oxides (NO_X), sulfur oxides (SO_X) and other significant air emissions				Omission: not applicable, given the type of organisation.

GRI 400 Social standards

GRI 401: Employment 2016

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Attractive employer)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	– Employees – Workforce Appendix	50 290		
GRI 401-1	New employee hires and employee turnover	Workforce Appendix	290		
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees				Not applicable
GRI 401-3	Parental leave	Workforce Appendix	290		

GRI 402: Labor/Management Relations 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Attractive employer)	275		
GRI 103-2	The management approach and its components	Management cycle	45		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 103-3	Evaluation of the management approach	Employees	50		
GRI 402-1	Minimum notice periods regarding operational changes	Workforce Appendix	290		

GRI 403: Occupational Health and Safety 2018

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Attractive employer)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	– Employees – Workforce Appendix	50 290		
GRI 403-1	Occupational health and safety management system	Workforce Appendix	290		
GRI 403-2	Hazard identification, risk assessment and incident investigation	Workforce Appendix	290		
GRI 403-3	Occupational health services	Workforce Appendix	290		
GRI 403-4	Worker participation, consultation and communication on occupational health and safety	Workforce Appendix	290		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 403-5	Worker training on occupational health and safety	Workforce Appendix	290		
GRI 403-6	Promotion of worker health	Workforce Appendix	290		
GRI 403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships			Human rights policy	
GRI 403-8	Workers covered by an occupational health and safety management system	Workforce Appendix	290		
GRI 403-9	Work-related injuries	Workforce Appendix	290		
GRI 403-10	Work-related ill health	Workforce Appendix	290		

GRI 404: Training and Education 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Attractive employer)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	– Employees – Workforce Appendix	50 290		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 404-1	Average hours of training per year per employee	Workforce Appendix	290		
GRI 404-2	Programmes for upgrading employee skills and transition assistance programmes	Workforce Appendix	290		
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	Workforce Appendix	290		

GRI 405: Diversity and Equal Opportunity 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Attractive employer)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	– Employees – Workforce Appendix	50 290		
GRI 405-1	Diversity of governance bodies and employees	– Diversity policy for the Supervisory Board and Management Board – Workforce Appendix	54 290		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 405-2	Ratio of basic salary and remuneration of women to men	Remuneration policy	53		

GRI 406: Non-discrimination 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Attractive employer)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Employees	50		
GRI 406-1	Incidents of discri-mination and correc-tive actions taken	Workforce Appendix	290		

GRI 414: Supplier Social Assessment 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (sustainable operations)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Sustainable operations	55		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
GRI 414-1	New suppliers that were screened using social criteria	Sustainable operations	55		
GRI 414-2	Negative social impacts in the supply chain and actions taken	Sustainable operations	55		

GRI 415: Public Policy 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Reliability)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Risk management and compliance	46		
GRI 415-1	Political contributions	Risk management and compliance	46		

GRI 418: Customer Privacy 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Reliability, Data security)	275		

	GRI DISCLOSURE	ANNUAL REPORT DISCLOSURE	PAGE	WEBSITE	NOTES
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GRI 103-3	Evaluation of the management approach	Risk Management and compliance	46		
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Risk management and compliance	46		

GRI 419: Socioeconomic Compliance 2016

GRI 103-1	Explanation of the material topic and its boundary	Notes on the materiality analysis and material topics (Reliability)	275		
GRI 103-2	The management approach and its components	Management cycle	45		
GRI 103-3	Evaluation of the management approach	Risk Management and compliance	46		
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	Risk management and compliance	46		

Colophon

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