Pillar 3 Disclosure report

BNG Bank 2017

BANK

Contents

Preliminary remarks

The current international regulatory framework for banks consists of a comprehensive set of measures developed by the Basel Committee on Banking Supervision (known as Basel III). Basel III has been implemented in the European Union through the Capital Requirements Directive IV (CRD IV) and is applicable as of January 1st 2014. CRD IV is formed by two legal acts (a Directive and a Regulation) and includes various transitional provisions which allow for a gradual phasing in of the new requirements.

The Basel framework (and thus CRD IV) is based upon three pillars:
- The first pillar consists of minimum capital requirements for three main categories of risk: credit risk, market risk and operational risk.
- The second pillar provides a framework for banks to review their capital (and liquidity) adequacy for both the risks identified in Pillar 1 as well as all other risks (e.g. concentration risk, strategic risk, etc.). This internal review by banks is known as the Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP). Supervisors independently assess these processes in their Supervisory Review and Evaluation Process (SREP).
- Finally the third pillar aims to introduce market discipline to complement the capital and liquidity requirements from the first and second pillar. Therefore Basel III (and CRD IV) contains a set of disclosure requirements which will allow market participants to have a sufficient understanding of a bank's activities, the risks that are involved and the controls that are implemented to manage these risks.

This report is drafted in response to the last pillar. The Pillar 3 disclosure provides a comprehensive overview of the risk profile of BNG Bank. Central to the Pillar 3 disclosure requirements is to promote the transparency of financial institutions and provide market participants with an adequate and comparable picture of the risks of a financial institution. This contributes to a proper functioning of financial markets, improves efficiency of market discipline and helps in building trust between market participants.

Frequency and means of disclosure (articles 433 CRR and 434 CRR)

The Pillar 3 disclosure of BNG Bank is published annually. This Pillar 3 Report is published on the website of BNG Bank shortly after the publication of the Annual Report.

In previous years the Pillar 3 Disclosure report mainly served as a reference guide to clearly indicate where relevant information could be found in the financial statements. However, as of 31 December 2017 the EBA guidelines on diclosure requirements[1] are applicable to the disclosure of financial insitutions (as defined in Artilcle 4(1) of Regulation (EU) No 1093/2010). These guidelines prescribe in detail the tables and templates through which the Pillar 3 information needs to be disclosed.

These tables and templates do not fully align with the information that is disclosed in the financial statements of BNG Bank as these statements are based on IFRS accounting principles. Therefore, this year a Pillar 3 Disclosure report has been drafted that contains the required Pillar 3 information separately and can be read on its own. On the other hand, a part of the information is already included in the financial statements. This is especially true for the qualitative information in the risk section of the financial statements. This information is reproduced in this report.

In this respect the report can be divided in two parts. The first section provides a comprehensive qualitative overview on the management of risks by BNG Bank and is derived mostly from the risk section of the financial statements. Where possible quantitative information from this risk section is, however, omitted as the second part of this report contains all templates for disclosing the relevant quantitative information as provided for by the European Banking Authority (EBA)[2]. The order of these different sections has been aligned with those EBA guidelines and standards. For the sake of completeness, the last section includes a overview of the regulatory requirements regarding Pillar 3 disclosure and the location where the information can be found.

1 EBA/GL/2016/11, Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013

2 Templates and tables are described in detail in EBA/GL/2016/11, Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013

Following relevant EBA guidelines on the frequency of disclosure[3] BNG Bank has assessed the need to publish information more frequently than annually. An annual publication of a comprehensive Pillar 3 disclosure report is deemed sufficient despite the designation of BNG Bank as an other systemically important institution (O-SII). BNG Bank is characterized by a stable business model with a limited range of activities and exposures. The resulting risk profile of BNG Bank is not prone to any rapid changes. And in general, the information, that would qualify for more frequent disclosure, does normally not exhibit any sudden changes either. An annual disclosure suffices therefore.

In addition, BNG Bank does publish an interim report on its website which is reviewed by an external auditor. Any sudden changes in the financial position or in the markets in which BNG Bank operates will be addressed in this interim report. If these circumstances would lead to material changes in the risk profile of BNG Bank an additional disclosure of some or all of the Pillar 3 requirements will be contemplated.

Finally, it should be noted that information in this report has not been audited. However, the appropriateness of the disclosed information is approved by the Executive Board of BNG Bank. Information that is considered to be proprietary or confidential will not be published, but is disclosed in a more general manner. The Annual Report itself is audited by an external auditor.

[3] EBA/GL/2014/14, Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR

Risk management objectives and policies (article 435 CRR)

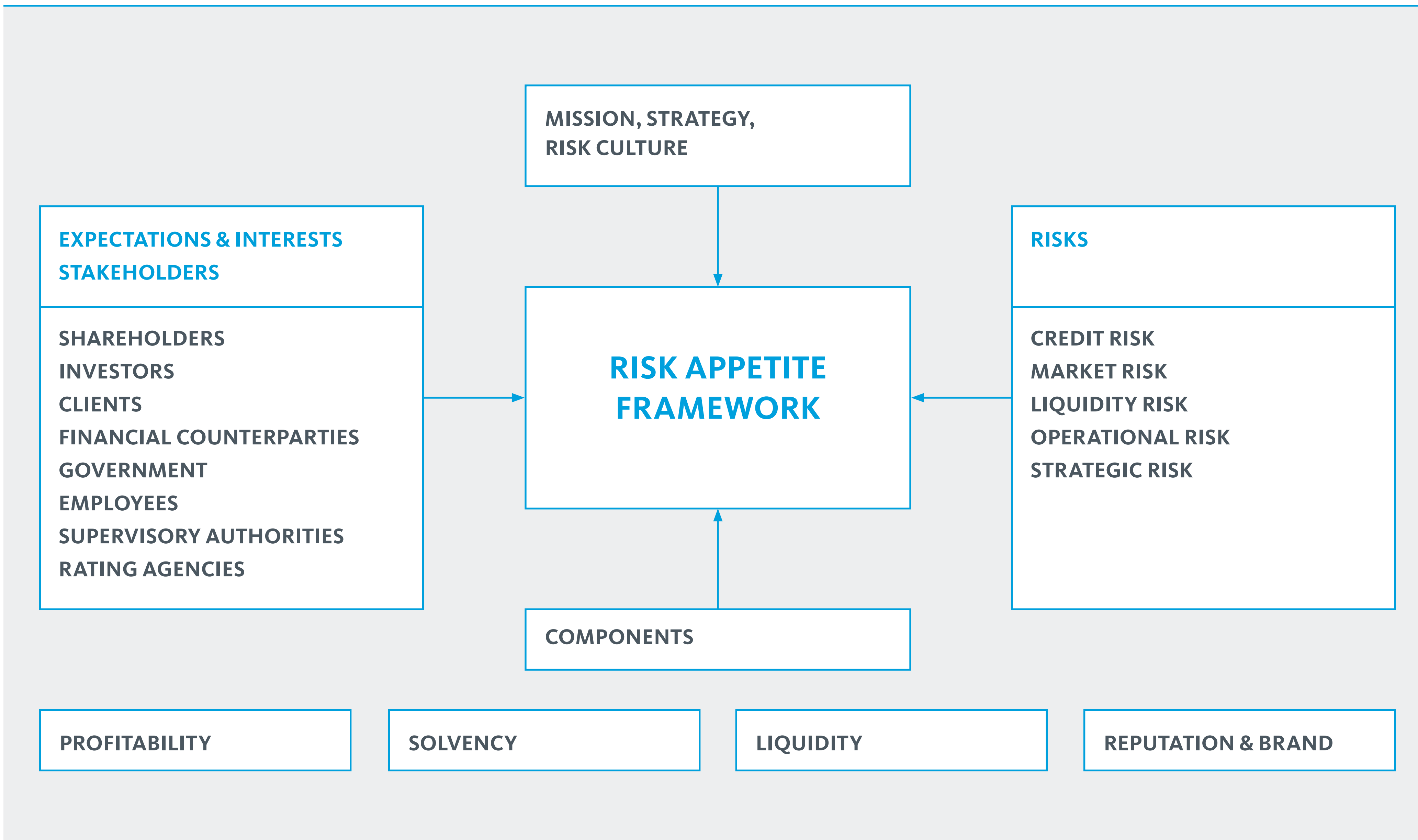
General information

INSTITUTION 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. BNG Bank only has a banking book and does not have a trading book. BNG Bank's risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its high external credit ratings. For this reason, BNG Bank employs a strict capitalisation policy.

RISK APPETITE STATEMENT

The bank has prepared a Risk Appetite Statement (RAS) describing its risk appetite, which sets out the types and degree of risk the bank is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan. The risk appetite falls within the risk capacity, which is the maximum risk level that the bank is able to assume given its capital base, risk management and control capabilities as well as its regulatory constraints and at which the bank is still able to meet its obligations towards its clients, investors, shareholders and other stakeholders. The bank has a mission, a strategy and core values, which jointly influence the risk culture. The bank balances the interests of the various stakeholders when fulfilling the mission and executing the strategy. To facilitate this, a stakeholders model is used which is represented in the next figure.



Formulating a risk appetite also requires definitions of risks to ensure everyone speaks the same language. BNG Bank recognises the financial risks of credit risk, market risk and liquidity risk, as well as the non-financial risks of operational risk and strategic risk in this regard. Finally, several components are defined that form the core of the bank's operations and constitute the framework within which the risk appetite is formulated. In the case of a bank, the components (1) Profitability, (2) Solvency and (3) Liquidity are most obvious. These are widely used concepts for assessing the security and hence the risk profile of a bank. Besides those components, BNG Bank has also opted for (4) Reputation and Brand as BNG Bank has always placed great value on an impeccable reputation. The risk appetite is evaluated annually and adjusted where necessary in order to ensure that it remains in line with BNG Bank's strategic objectives:
- substantial market shares in the Dutch public sector and semi-public domain;
- generate a reasonable return for its shareholders.

And satisfies the conditions identified in this context:
- an excellent credit rating and adequate risk management;
- an excellent funding position;
- effective and efficient operations.

In translating these strategic objectives and conditions into the risk appetite, the bank identifies the interests and expectations of all its stakeholders. This subsequently results in the formulation of objectives with regard to profitability, solvency, liquidity and reputation & brand in the form of the RAS. The RAS is laid down by both the Executive Board and the Supervisory Board. Once the risk appetite has been established, it is translated to the different risks, namely the financial risks of credit risk, market risk and liquidity risk, and the non-financial risks of operational risk and strategic risk.

The risk appetite for the four components is reflected in the following objectives:

PROFITABILITY

BNG Bank aims to minimise charges for the public sector, and hence does not seek to maximise profits. For its shareholders the bank's objective is to achieve a reasonable return. Relative stability of the annual results is also important to different stakeholders, including regulatory authorities and rating agencies. 'Relative' in this context refers to a maximum percentage of deviation relative to the previous annual result.

SOLVENCY

BNG Bank aims expressly to stand out in the financial markets in terms of the size and quality of its capital. This is expressed in the desired rating profile: a rating at the same level as that of the Dutch State. To realise this, BNG Bank's capital must be significantly greater than the criteria applied by the regulatory authorities and significantly greater than (the majority of) other banks to ensure favourable funding rates. This relates to domestic Dutch banks as well as foreign banks.

LIQUIDITY

BNG Bank intends to use its position to maintain a lasting and stable presence in the market for the public sector and continue to meet the demand for lending even in difficult times. It also aims for a prudent liquidity position, with due regard for the principles that it is always able to meet its short-term obligations and also adequately mitigates its refinancing risk. In this context, continuous access to funding is crucial and hence continuous maintenance of an attractive, varied issuance programme of sufficient volume for investors. In addition, it is important to have sufficient collateral lodged with the ECB to ensure short-term funding can be raised with the ECB in times of need.

REPUTATION & BRAND

BNG Bank aims to retain the perception its stakeholders have of it as a quasi-public sector body, with excellent creditworthiness and a fine reputation and integrity profile. The bank wants to retain the status of promotional bank. The nature and size of financial losses should be aligned with the perception of its stakeholders and not include any unexpected elements. The bank is not willing to assume any risks for which it may reasonably be presumed that the risk can harm its integrity and/or reputation. BNG Bank aims to exercise due care in the provision of services and to observe a duty of care towards its clients, and endeavours to provide tailored products and services at competitive rates.

RISKS ACCEPTED BY BNG BANK

In order to achieve its goals, the bank has identified the types of risks it is prepared to accept as a consequence of its strategy and business operations. Three important principles in this respect are:

- BNG Bank aims to provide the best possible services to its stakeholders, now and in the future. The return required by its principal shareholder takes account of the bank's risk profile. This means that the required return should not result in the bank taking such considerable risk as to jeopardise its ratings and funding position, as a consequence of which it would no longer be able to fulfil its mission in the long term. Subject to certain conditions, the bank seeks a higher return than this external return requirement.
- In addition to a reasonable return for shareholders, low prices are the major focus. BNG Bank is willing to assume the necessary risks, in a controlled manner, that go hand in hand with lending to clients. The bank is furthermore willing to assume certain additional risks for activities that support lending to clients. Achieving an additional return (based on considerations of risk and return) makes lower prices for clients possible now and in the

future. Again, this may not be at the expense of the external ratings and excellent funding position, since that would jeopardise the bank's mission.
- In the public sector there is a distinction between lending not subject to solvency requirements (zero risk weighted) and lending that is subject to solvency requirements (non zero risk weighted), whether this is caused by guarantees or otherwise. The largest share of the bank's lending (loans and advances) is not subject to solvency requirements. In order to facilitate this lending at the lowest possible rates, it is essential that the bank retains its competitive funding position. This in turn is dependent on the high ratings, forcing the bank to impose restrictions on lending subject to solvency requirements, in view of the related credit risks.

As a result of the foregoing, the bank is prepared to accept the following risks.

CREDIT RISK

- Counterparty risk associated with lending subject to solvency requirements to clients. Certain non solvency free parties belong to the public sector and hence are covered by the bank's mission. Additionally, the return on lending subject to solvency requirements can support the competitive rates charged for lending not subject to solvency requirements.
- Risks in terms of financial counterparties associated with activities that support lending (including the hedging of market risks through derivatives).
- Concentration risk in relation to the Dutch public sector is inherent to the business model. A sizeable part of the associated exposure relates to public sector real estate. For the most part, this risk is mitigated by the guarantee funds in the Social Housing sector and Healthcare sector, resulting ultimately in a risk exposure to the Dutch State.
- Investments that support lending to clients.

MARKET RISK

- BNG Bank hedges the interest rate risks arising from lending (loans and advances) and borrowing. However, the bank is willing to assume a certain degree of interest rate risk. On the one hand, a certain maturity mismatch, related to the bank's capital base, is a common source of income for banks (longer lending term than borrowing term). Additionally, BNG Bank strives to achieve additional return with an active interest rate position policy. With regard to (tenor) basis risk the bank assumes a limited position arising from regular funding and lending.
- It is the banks policy to hedge any option positions, unless they support the active interest rate position policy.

It should be noted that BNG Bank is not willing to assume any exposures to foreign exchange risk. Foreign exchange risks are therefore hedged, including FX basis risk. Furthermore, BNG Bank has no trading book and, consequently, does not assume any market risk in connection with trading portfolios.

LIQUIDITY RISK

- As BNG Bank wishes to meet its payment obligations at all times, short-term liquidity risks are only assumed if they are matched by sufficient capital buffers capable of meeting these short-term obligations.
- The public sector consists largely of institutions with a long-term investment horizon. This means that assets frequently have long maturities that can run into decades. As BNG Bank is unable to raise funding for these maturities, a funding mismatch is assumed, 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 Bank is also willing to assume the refinancing risk arising from the liquidity requirement related to activities other than lending to its clients, as is the case with investments. The ensuing additional liquidity requirement may not jeopardize the bank's mission.

OPERATIONAL RISK

- Operational risk is inherent in operating a business. BNG Bank accepts that providing tailored services entails additional inherent operational risks with regard to standard products.
- Operational risks are mitigated by weighing the costs against the economic benefits, except in case of compliance with legal and regulatory requirements and duty of care and proper conduct issues, where the risks should be minimised.
- In addition to lending, BNG Bank also provides its clients with other products, such as current account and payment transaction services. Clients benefit considerably from this broader range of services, and this also promotes client loyalty to the bank even if it can be argued that payment transaction services do not significantly contribute to minimising public sector financing costs. The bank is willing to assume operational risks also for these additional products, provided they do not jeopardize its mission.

STRATEGIC RISK

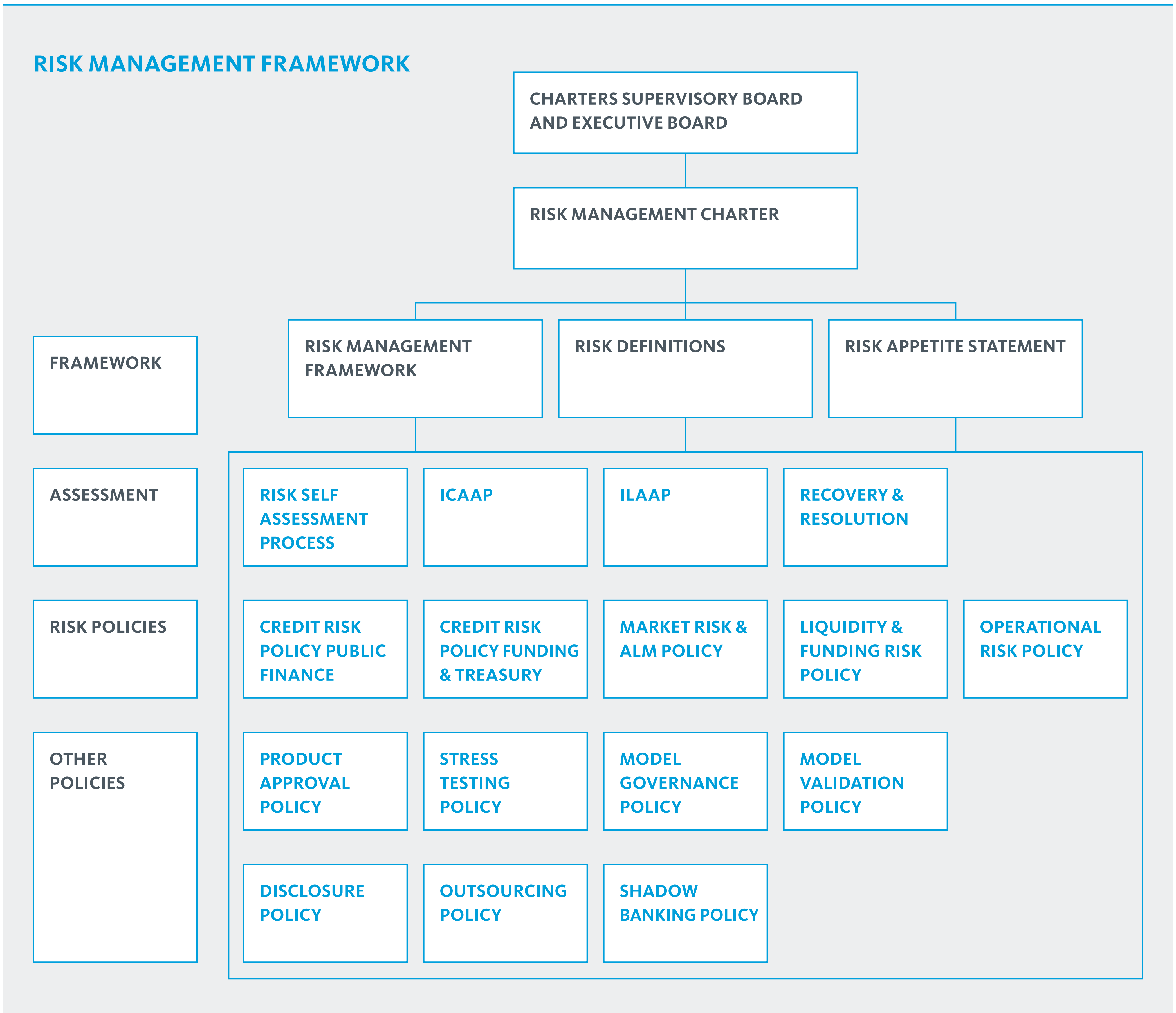
In the case of strategic risk it is more difficult to determine the extent to which risks are assumed, since they are driven by external factors in particular and hence are less easily influenced. However, BNG Bank needs to address the risks that emerge from changes in its environment. It is essential that the bank remains relevant for its clients and is therefore responsive to political and social developments. Sustainability e.g. is a major issue for the bank's clients. A failure to satisfy clients' expectations can adversely affect the bank's market position. BNG Bank actively advances the message that it wishes to partner with clients in relation to sustainability. This carries the reputational risk that it will be unable to adequately fulfil this publicly issued commitment.

In a yearly cycle the RAS is updated based on external as well as internal developments. It is subsequently cascaded into these limits, targets and information figures. These are subject to a monitoring program that is conducted each quarter to determine whether the bank is still within the limits of its risk appetite. The outcomes are reported to the Management Board and Supervisory Board as part of the quarterly Risk Report. Examples of further tools to monitor compliance to the risk of the bank are the yearly In Control Statements by senior management and reports by internal and external auditors.

In 2017, the bank operated comfortably within its own risk appetite for market risk, credit risk and liquidity risk. With regard to capital, in 2017, the bank achieved the expected legal requirement including an internally desired buffer. With regard to operational risk, the bank remained well within the internal norms for operational incidents. The tools available for monitoring operational risk have been improved and development will continue in 2018. In monitoring its strategic risk the bank decided to follow an approach aimed at systematically examining the most important strategic risks in a qualitative way.

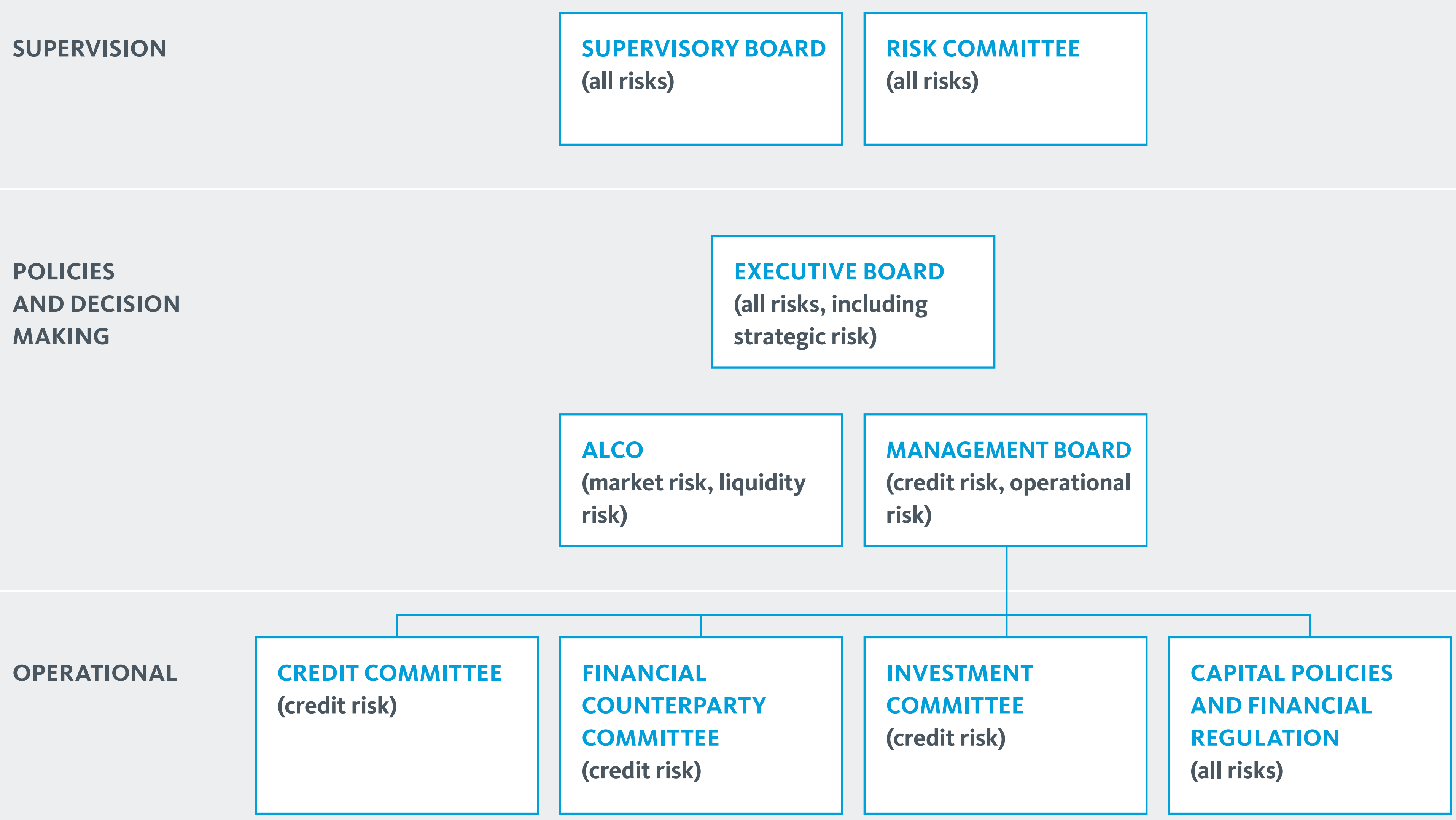
RISK MANAGEMENT FRAMEWORK

Supplementary to its RAS, BNG Bank applies a Risk Management Framework which provides an overarching framework to monitor and develop the system of limits, targets and reference figures that is used to monitor the risks. This framework defines various risk types, sets out the responsibilities and identifies the various documents and policies that describe the acceptance and management of these risks.



Risk management activities are included in all parts of the organisation of BNG Bank. Therefore, BNG Bank has taken into account a solid level of segregation of duties and focusses on the robust execution of risk management activities. Furthermore, BNG Bank has several governing bodies and risk committees in which risks are considered at different levels. The following figure provides an overview:

RISK RELATED GOVERNING BODIES



BNG Bank has a two-tier governance structure consisting of a Supervisory Board and an Executive Board. An up-to-date overview on the members of these Boards as well as their sub-committees is available on the website[4] of BNG Bank. Information on the number of directorships, the profile of board members and their duties and responsibilities is also included here. The responsibilities of the Supervisory Board and of the Risk Committee of the Supervisory Board relating to risk management are stated in their charters. The responsibilities of the Executive Board are stated in a charter as well. Effectively the Supervisory Board as well as the Executive Board have the responsibility to ascertain that the bank is and will remain within its risk appetite and take appropriate measures if this is no longer the case. For an overview as of end December 2017 and the corporate governance statement the Annual Report provides a comprehensive overview (pages 63-72 and 84-95)[5].

In the Management Board and the Asset & Liability Committee (ALCO), all members of the Executive Board are included. For this reason all decisions made by the Management Board and by ALCO are formal decisions by the Executive Board. Formal decisions are also made in the Executive Board meeting itself. In the context of risk taking this is mostly the case if either an escalation by an operational risk committee or a decision of a strategic nature is at hand. The risk committees that act on an operational level are chaired by a member of the Executive Board. Three of these committees test if the various risk taking activities of the bank are in line

[4] For the Executive Board. For the Supervisory Board.

[5] The Annual report is available at the website.

with the policies. The fourth committee, Capital Policy and Financial Regulations Committee, advises the Management Board on the capital policy and the allocation of capital to the bank's various business units. In addition, the committee advices on the introduction of new regulations concerning solvency and liquidity as well as on technical financial issues. The committees also advise the Management Board and the ALCO on changes in policies. The operational committees have no mandate to approve policy changes themselves.

The following departments support the Executive Board and the committees in implementing risk policy:

- The Risk Management department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of credit risk, market risk, liquidity risk, operational risk and other risks. The department has a supporting role as regards strategic risk. The department manages the risk policy documents and the Risk Management Framework. The Risk Management Department participates in the internal risk committees as well as in the Risk Committee of the Supervisory Board.
- The Credit Risk Assessment department provides independent assessments and advice on risks relating to credit and review proposals for clients and financial counterparties. It also formulates policies with respect to credit risk. As part of the operational lending process it is represented in the bank's Credit Committee, the Financial Counterparties Committee and the Investment Committee. This department is also responsible for the bank's Special Management activities – being the supervision, management and processing of distressed credits.
- The Internal Audit Department (IAD) periodically conducts operational audits in order to evaluate the structure and performance of the bank's risk management systems and assess compliance with the applicable legislation. The IAD functions as an independent entity within the bank and reports to the Executive Board. The IAD also has a reporting line to the Supervisory Board.
- Where necessary, the Compliance & Integrity department is engaged in connection with conduct-related issues. This department monitors compliance with all relevant laws and regulations. The duties, position and authorities of this compliance function are laid down in the BNG Bank Compliance Charter. The Compliane officer reports to the Executive Board and has a reporting line to the Supervisory Board.

The Capital Management department also reports directly to the Executive Board. Apart from managing capital policy and allocation the department also actively monitors and analyses upcoming legislative changes.

Credit risk

DEFINITIONS

Credit risk is defined as the chance of losses if and when a counterparty is unable to meet its financial and/or other obligations and includes settlement risk, counterparty risk and concentration risk.

- Counterparty risk: The risk of losses if a party fails to make payments that result from a financial transaction, at the moment those payments are due.
- Concentration risk: The overall spread of a bank's exposures over the number or variety of debtors to whom the bank has lent money.
- Settlement risk: The risk that one party will fail to deliver the terms of a contract (or a group of contracts) with another party at the time of settlement.

GOVERNANCE

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

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

The Credit Risk Assessment department and the Risk Management department (at portfolio level) are responsible for assessing, quantifying and reporting the credit risk. In the organisation, these departments operate independently from the Public Finance and Treasury directorates, which are responsible for contracts that include credit risk. The Risk Management department is internally responsible for all Credit Risk policies.

DEVELOPMENTS

Because of IFRS 9, financial institutions needed to develop an impairment model in order to recognize credit losses before an actual credit event occurs. The impairment model is based on a three-stage process which is intended to reflect deterioration in credit risk. BNG Bank assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the asset is determined to have low credit risk at the reporting date. In that case, the bank measures impairment under 12-month expected credit losses (ECL). Otherwise, the ECL of an asset is either determined on a 12-month or lifetime basis depending on whether a significant increase in credit risk occurred. On top of the existing internal Probability of Default (PD) models, BNG Bank developed an overlay model that calculates an add-on for the PD's by using forward looking information (FLI) based on forecasts on macroeconomic variables. By incorporating this add-on, the resulting point-in-time PD has a cyclical component. For its internal capital calculations, BNG Bank assigns a Loss Given Default (LGD) percentage to exposures based on values from the Standardized Approach because statistical data is practically unavailable for its client exposures. Since this is not allowed under IFRS 9, an LGD percentage is calculated based on the very little internal and some available relevant external statistical data. The bank applies a cash flow model to calculate the estimated exposure at each future year-end. BNG Bank employs different techniques and judgements in the staging assessment. The techniques or 'triggers' differ in nature, being quantitative, qualitative or a backstop indicator. IFRS 9 will be effective as from 1 January 2018.

In 2017 the lean way of working was introduced in the lending process. This led to several organisational changes like working in teams instead of in separate departments. For these organisational changes, separation of duties was monitored by the IAD. The introduction of lean working did not result in significant changes in formal credit risk policies. Any changes in credit risk policies were facilitated by the Risk Management department and approved by the Executive Board.

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:

- Because loans subject to solvency requirements are often extended under (partial) guarantees or suretyships, on balance the loan remains (partly) solvency-free for BNG Bank (see the section on statutory market parties). The guarantees are provided by a central or local authority or by the guarantee funds WSW (Social Housing) and WfZ (Healthcare).
- 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. See also the section 'Financial counterparties'.

STATUTORY MARKET PARTIES

The bank's Articles of Association limit lending to parties subject to some form of government involvement. As a result, the credit portfolio is largely comprised of solvency-free 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 next to the abovementioned assessment 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 are preceded by an extensive creditworthiness analysis. The responsible team within Public Finance draws up the credit proposal. This contains a detailed assessment of the creditworthiness of the client concerned, based in part on the bank's own internal rating model. The greater the degree of tailoring involved in a transaction, the more intensive the operational risk procedure is followed. To that end, the bank has implemented a tailor-made assessment process in order to keep the complexity manageable for both the client and the bank.

- The Credit Risk Assessment department prepares an independent second opinion on the credit proposal.
- The intensity of the decision-making process is determined based on the proposed rating and the size of the loan. The bank's risk appetite also determines the level of maximum credit risk the bank is prepared to accept for the client in question. The credit proposal must be in accordance with this maximum risk.
- The Credit Committee decides whether the credit can be accepted. The Credit Committee is chaired by a member of the Executive Board and includes representation from the Public Finance directorate, the Credit Risk Assessment department and – where applicable – the Treasury department. If the Credit Committee is unable to form a unanimous opinion, the decision on the proposal is escalated to the Executive Board. A delegation model applies to loans and advances of limited scale or risk, in which authority to make decisions lies with the Director of Public Finance and the Credit Risk Assessment Manager.

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

- The file is completed with relevant documentation by the Public Finance Teams.
- The Public Finance Teams are responsible for the file management, including monitoring securities and covenants.
- The creditworthiness is reviewed at least once a year. This involves an updating of the internal rating. The Credit Committee evaluates these reviews. A delegation model applies here as well. Loans and advances whose credit quality (rating) has fallen below a specific level (see the table below) are subject to increased management scrutiny and, if necessary, transferred to the Special Management group within the Credit Risk Assessment department.

Despite the virtual absence of credit risk within this solvency-free portfolio, in 2016 the bank has set up an additional process for the assessment and review of the creditworthiness of parties that have only been granted loans and advances that are directly or indirectly guaranteed by the Dutch State. The bank's internal rating models have been adapted to facilitate these assessments, thus providing consistency with the existing assessment for non solvency free lending. During 2017 these assessments have taken place and a process of fine tuning of policies and processes is in its final stage.

CREDIT MODELS

Most of BNG Bank's clients do not have an external rating. The bank makes their creditworthiness transparent using internally developed rating models. 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. Models are in use for the following sectors:

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

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

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

Below table provides an overview of the distribution of the loan portfolio across those ratings. More quantitative details on the credit risk profile and the credit quality is included in the section on credit risk and credit risk mitigation.

	31/12/2017		31/12/2016	
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	% OF TOTAL	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	% OF TOTAL
SOLVENCY-FREE LOANS AND ADVANCES	**86,699**	**88%**	**89,513**	**89%**
LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS INTERNAL RATING:				
– 1 through 11	10,567	11%	10,739	11%
– 12 through 13	363	0%	415	0%
– 14 through 17	507	1%	361	0%
– 18 through 19	38	0%	33	0%
	11,475	**12%**	**11,548**	**11%**
TOTAL	**98,174**	**100%**	**101,061**	**100%**

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 to the counterparties themselves or specifically to the securities purchased.

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. The market risks associated with these parties are mitigated primarily through derivative transactions.

In order to reduce credit risk, netting agreements are agreed upon with financial counterparties with which BNG Bank actively concludes 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

COUNTERPARTIES WITH INVESTMENTS IN INTEREST-BEARING SECURITIES (IBS)

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

CONCENTRATION RISK

Regarding of 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.

Concentration risk is monitored by the first line as well as independently by the second line Risk Management department. Reports are submitted to the various committees and to the Management Board as the overarching authority. All policy decisions are taken by the Management Board, usually based on a recommendation by one of the sub-committees.

Alongside the risk concentration for solvency-free lending to the Dutch and other European governments, risk concentrations also exist in the market segments with exposures subject to solvency requirements, e.g. university hospitals. Almost all exposures to public sector entities subject to solvency requirements are secured by means of collateral or other securities. The other exposures subject to solvency requirements relate to financial institutions. Regarding concentration risk, three (2016: five) of these financial institutions together represent an exposure of more than 10% of the Tier 1 capital.

DOMESTIC COUNTRY RISK

A considerable degree of concentration risk to the Netherlands is inherent to BNG Bank's mission: financing the Dutch public sector. A considerable portion of the exposure 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 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 and to its place in the Dutch social system.

FOREIGN COUNTRY RISK

The bank is exposed to foreign country risk as a result of transactions with financial counterparties to hedge the market risks arising from lending 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 consciously purchases foreign securities for its liquidity portfolio because the majority of its loan portfolio relates to the Netherlands. Foreign lending is in most cases directly or indirectly guaranteed by the relevant governments.

All foreign exposures fall within limits set for each country. These limits mainly depend on the credit quality of the country in question. Moreover, a general limit of 15% of the balance sheet total applies to the total of all foreign exposures.

After 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 without replacing them with new exposures. At the end of 2017, the bank's foreign exposure (expressed in balance sheet value) totalled EUR 24.1 billion (2016: EUR 23.8 billion), of which EUR 11.6 billion consisted of long-term exposures (2016: EUR 13.1 billion). This represents 8.3% of the balance sheet total (2016: 8.5%).

SECTOR RISK

Sector-specific policies and annual internal targets are used for lending without direct or indirect guarantees from the Dutch State. These sector targets relate to both maximum concentrations on the balance sheet and commercial targets for new transactions according to the bank's Annual Plan. Active portfolio management is positioned within the Public Finance department. Realisation of the risk targets as well as the commercial targets is reported to the Management Board on a quarterly basis by the Risk Management department. The concentration risk per sector is also part of the Risk Management economic capital model used to assess the capital adequacy allocation.

INDIVIDUAL STATUTORY MARKET PARTIES

In terms of exposures to individual parties without direct or indirect guarantees from the Dutch State, maximum amounts apply to all parties that, regardless of individual credit quality, are much lower than the amounts permitted under the Large Exposure Regulation. These limits take into account the degree to which sectors are anchored in the public sector. Further limits are also established based on the party's individual internal rating.

INDIVIDUAL FINANCIAL COUNTERPARTIES

Transactions with these parties primarily consist of interest rate and currency swaps that are undertaken to mitigate market risks. Money market exposures can also apply. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it is willing to transact. 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 from these parties with respect to derivatives in terms of market value, resulting in some operational risks. Default can also lead to market risks. Although the derivatives are measured at market value and the value of the collateral in this type of situation will be equal or close to the market value, 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. Since 2016 the bank is clearing parts of its derivatives centrally. The bank uses five clearing members for this purpose. Central clearing has resulted in a shift in concentration risk from individual financial counterparties to the clearing members.

SETTLEMENT RISK

Exposure to settlement risks is limited to transactions with financial counterparties. Settlement risk is potentially high for those parties because of the relatively large size of the bank's benchmark issues in foreign currencies. Netting and collateral agreements concluded with those parties serve to limit settlement risks resulting from the mutual offsetting of payments. Control measures throughout the operational process serve to further mitigate the settlement risk. The Bank Recovery and Resolution Directive (BRRD) that was introduced in Dutch law in November 2015, has included protection for settlement and payment systems in case of resolution of a bank, effectively reducing the settlement risk in parts of the financial system. An extensive review of the internal control measures was launched in 2016. Several follow up actions to improve practical mitigation have been implemented in 2017 and evaluation of further possible actions will continue in 2018. Capital allocation for settlement risk is based on an assessment of the likelihood of a possible loss from settlement risk and is updated yearly as part of the Internal Capital Adequacy Assessment Process.

Market risk

DEFINITIONS

Market risk is defined as existing or future threats to the institution's capital and results as a result of market price fluctuations. There are several forms of market risk: interest rate risk, foreign exchange risk, volatility risk and spread risk.

- Interest rate risk: The current or prospective risk to earnings and capital arising from adverse movements in interest rates.
- Foreign exchange: The risk to annual results and capital arising from unfavourable exchange rate fluctuations.
- Volatility risk: The risk to annual results and capital arising from adverse movements in the implied volatility of market interest rates or currencies. This risk only applies to products with types of optionality, such as caps and floors.
- Spread risk: The risk to annual results and capital arising from unfavourable credit risk spread fluctuations and unfavourable liquidity risk spread fluctuations.

GOVERNANCE

The Treasury and Capital Markets directorate is the 'first line of defence' and responsible for day-to-day market risk management. This directorate is responsible for hedging the market risks resulting from commercial activities. Additionally, the Treasury department has a mandate to adopt an interest rate risk position within the limits imposed by the Asset & Liability Committee (ALCO). The mandate for the ALCO to set limits is restricted by the capital that is explicitly allocated for this purpose. Stress scenarios are used to assess continuously whether this capital is sufficient.

The Risk Management Department 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. The department prepares reports for the ALCO and the Treasury department and provides risks analyses and advice, both proactively and on request. By participating in the product approval process it also plays an important role in decisions to assume new market risks caused by new activities.

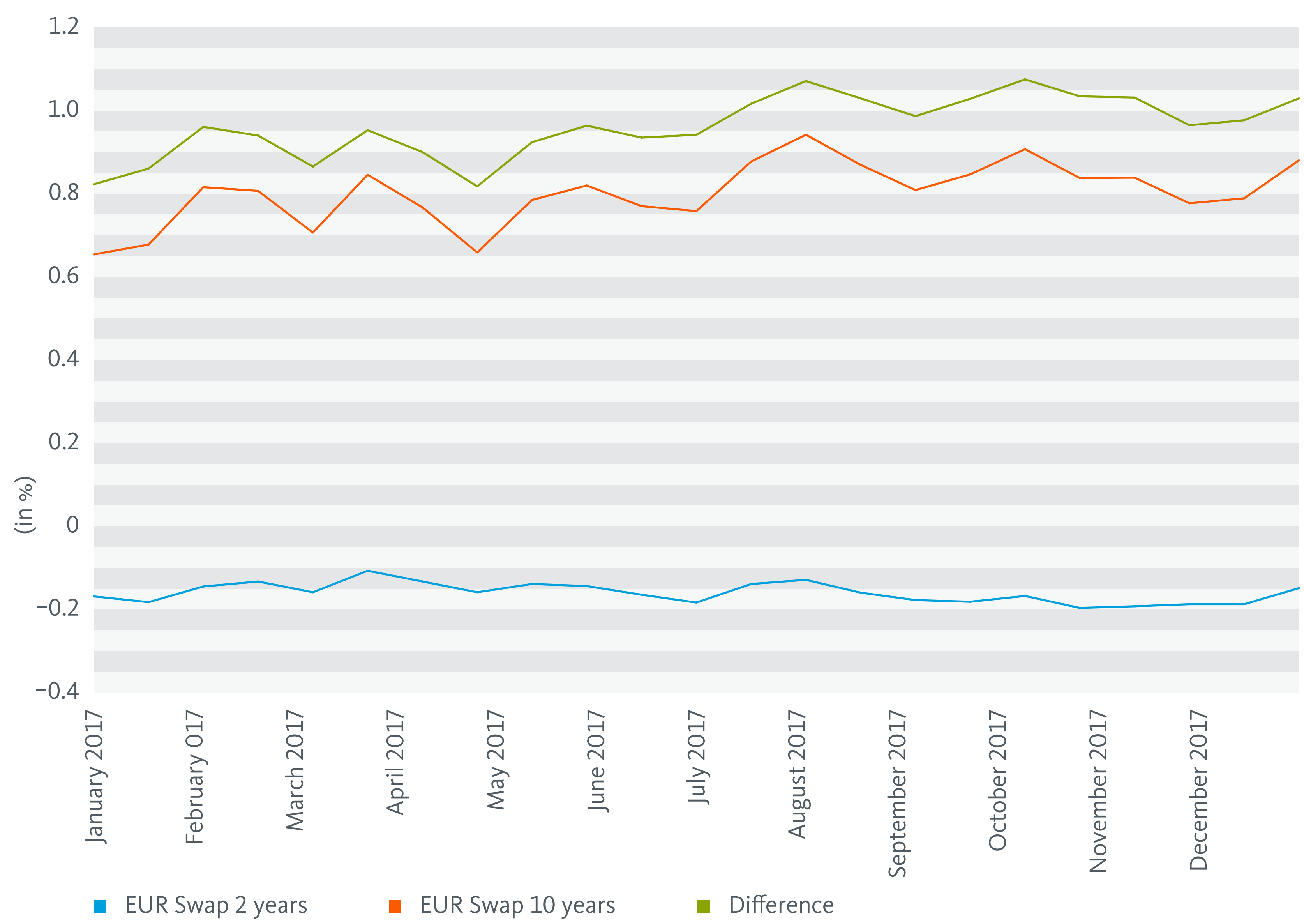
The ALCO is responsible for implementing the market risk policy. The ALCO consists of the Executive Board members, the Managing Director of Treasury and Capital Markets, the Head of Risk Management, the Company Secretary and the Senior economist, supplemented with other participators depending on the agenda.

DEVELOPMENTS

The bank opted for a restrictive interest rate risk position in 2017. Because of an expected rise in interest rates, the interest rate position, measured in basis point sensitivity, was lower throughout the year compared 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.

The benchmark reflects a continuously neutral investment of equity position in 10 years Dutch Government Bonds, which is in line with the required return of the shareholders. Compared to this the bank's interest rate risk position in terms of mark to market outperformed the benchmark because the interest rates rose as expected.

EUROPEAN SWAP CURVE



Regarding its interest rate risk framework, the bank improved the measurement and monitoring of the credit spread risk. Furthermore, an interest rate gap analysis was designed and implemented in 2017, to complement the existing interest rate risk measures. Finally, a reverse stress scenario was added to the current parallel and non-parallel stress scenarios to determine under which circumstances the market risk limits set by the ALCO would be breached. In February the bank participated in the Interest Rate Risk in the Banking Book sensitivity exercise that was conducted by the ECB. The conclusion was that the bank was well capitalised to survive this stress scenario.

INTEREST RATE RISK

The bank's interest rate risk position is determined based on interest rates excluding credit and liquidity risk spreads and discounts. This means that changes in these spreads and discounts are not taken into account. The interest rate position in the banking book is internally managed in books for the Treasury department and the ALCO. The interest rate risk within the margin books (containing the lending and funding activities) and ALCO book (containing the active position) are transferred to the Treasury book by using internal swaps. The net interest rate risk in the Treasury book is externally hedged. Working on the basis of market forecasts from the departments Treasury and Economic Research, the ALCO periodically determines the bank's interest rate outlook and defines – within the predetermined frameworks – the interest rate position and the limits and early warnings (target) levels within which the Treasury and Capital Markets directorate must operate.

The bank manages its interest rate position by using principal risk measures, which are monitored by the Risk Management department. The principal risk measure to monitor and manage interest rate risk applied by BNG Bank is the sensitivity (delta) of the economic value of the bank's equity to changes in the interest-rate curve. The delta is determined for several maturity intervals on the interest rate curve and is reported daily. The ALCO manages the interest rate risk position based on the delta for each maturity interval.

In addition, the bank carries out daily and monthly scenario analyses on the economic value of the bank's equity. These parallel and non-parallel stress scenario analyses are performed to cover both external requirements as well internal required levels.

Furthermore, BNG Bank analyses the basis risk between tenors and now uses an interest rate gap report. Next to that, the impact of interest rate stress scenarios on the interest results (Earnings at Risk) of the bank is monitored. All these interest rate risk measures complement each other and ensure the transparency and manageability of risks.

Any breach of a limit must be reported to the ALCO. The ALCO decides whether action should be taken immediately to adjust the interest rate position to a position within the limit or to authorize the limit breach for a certain period of time. Limits are set for the delta of the economic value per maturity interval and the scenario analysis outcomes. Early warning levels are set for the internal Earnings at Risk scenarios; the (tenor) basis risks and the interest rate gap analysis for which no direct action from the ALCO is required. The bank also sees to it that the outlier criterion is not exceeded, by applying an internal threshold value which serves as an early warning. The outlier criterion is prescribed by the Basel regulations, where it is used to express the maximum relationship between market risk and equity. In this context, the interest rate risk is measured under extreme conditions with an instantaneous parallel interest rate shock of plus or minus 200 basis points. The limits with respect to interest rate risk were not breached in 2017.

BNG Bank measures the sensitivity of its interest rate result using the Earning at Risk (EAR) measure. The EAR is for BNG Bank an appropriate measure because it monitors the effect of an interest rate shock scenario on an accrual basis. The table below outlines the effect of a minus 180 basis points gradual parallel interest rate shock for the 1 year and 2 year horizon at the end of 2017.

EARNINGS AT RISK (in EUR million)	2017	2016
Horizon		
1Y	−16	−13
2Y	−86	−54

As the fair value items through profit & loss and for available for sale items are fully economically hedged for interest rate risk there is no sensitivity of these items on the economic value of equity. 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.

FOREIGN EXCHANGE RISK

The bank obtains a large portion of its funding in foreign currencies and is thus exposed to major potential foreign exchange fluctuations. The bank's policy specifies that all foreign exchange risks should be hedged in full and executes this policy. Incidentally, foreign exchange positions may occur in certain cases where it is not cost-efficient to hedge the risk. The foreign exchange risk of these minor positions is monitored on a daily basis, subject to limits. During 2017 these limits were not breached.

VOLATILITY RISK

In managing its interest rate exposure, the bank has allowed 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 2017 the Treasury department did not assume any additional volatility risk to support the active interest rate position.

With regard to its other activities, BNG Bank's policy specifies that the volatility risks for new products should be hedged in full. There is still some minor exposure to volatility risks with a legacy character.

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 and liquidity risk spreads. In case of cross currency swaps the cross currency basis spread is included in the market value. The impact of changes in these spreads and is monitored on a daily basis. For a small part of the fair value instruments accounted through profit and loss the ALCO has set a warning level on the spread delta

HEDGING OF RISKS WITH DERIVATIVES

As described above, 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.

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

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

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

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. For the derivatives that are not involved in a hedge accounting relationship, in virtually all cases there is an economic hedged position which is also recognised at fair value through the income statement so that, in total, the volatility of the result due to interest rate and foreign exchange risks is limited.

Liquidity risk and funding risk

DEFINITIONS

Liquidity risk is defined as the existing or future threat to the institution's capital and results due to the possibility that at any moment it will not be able to fulfil its payment obligations without incurring any unacceptable costs or losses.

- Short-term liquidity risk: The risk that the bank will not be able to attract sufficient funds to meet its payment obligations.
- Refinancing or long-term liquidity: The risk that the bank will not, as a result of its own creditworthiness, be able to attract any (or sufficient) funds against prices that won't jeopardise its continuity.

GOVERNANCE

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 resulting from commercial activities. The Treasury department is mandated to adopt a liquidity risk position within the limits and triggers imposed by the ALCO. Stress scenarios are used to continually assess the liquidity risks, in order to determine whether the liquidity and funding is sufficient.

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 its limits and triggers set by the ALCO. The Risk Management department independently reports to the ALCO and to the Treasury department on the use of predetermined limits and provides risks analyses and advice, both proactively and on request. Liquidity and funding risk measures such as liquidity gap analysis, contingency funding plan, and stress scenarios regarding the survival period are monitored against limits or triggers, both short term and long term. The Risk management department is also instrumental in the decision to accept liquidity and funding risks as part of the product approval process.

If liquidity limits or triggers are breached, the Contingency Funding Plan is enforced. Additional ALCO meetings, temporary procedures for more intensive liquidity management and temporary control of liquidity management by the liquidity contingency team are the main elements of this plan.

DEVELOPMENTS

In the last quarter of 2017, BNG Bank decided to continue long term prefunding, by exceeding the funding target for 2017 of EUR 15.6 billion by EUR 1.3 billion. The main reasons are funding of collateral and attractive pricing of liquidity. Regarding alternative funding, negotiations on a new Global Loan Facility were finalised in during the last quarter. This Global Loan of EUR 300 million is provided by Council of Europe.

In 2017 BNG Bank has improved the Internal Liquidity Adequacy Assessment Process stress scenarios by adding more scenarios including a reverse stress scenario, remodelling collateral outflows and fine-tuning other input parameters to get a better insight in the bank's liquidity position.

In addition, ALCO reporting was improved by implementing a monthly liquidity risk dashboard. Furthermore, the bank improved the measurement, reporting and monitoring of the funding spread risk. Funding spread risk is the accrual margin change due to increased funding spreads which cannot be passed through to the spreads of new assets. This risk is caused by the liquidity mismatch between assets and liabilities. The ALCO has set an early warning level for the 1 year horizon funding spread risk.

Finally, the bank is working on a forward-looking model to monitor the Net Stable Funding Ratio (NSFR) more closely.

LIQUIDITY

BNG Bank wants to provide a constant and stable presence in the market and want to continue to meet the demand for credit, even in difficult times. It also pursues a prudent liquidity position to ensure that it can meet its obligations at all times. In this context, ongoing access to the money and capital markets is essential, and with it, the ongoing maintenance of attractive, varied and sufficiently large issue 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 central bank, which enables it to obtain short-term funding immediately. Since most of the banks assets could serve as collateral, this collateral may be further extended in the event of prolonged stress.

The limits on funding deficits in the short term and in the long term are an explicit part of the risk appetite and directly determine the level of the principal liquidity limits. BNG Bank also calculates survival periods. The survival period is the period in which the standard liquidity buffers are sufficient for absorbing the consequences of a stress scenario. Survival periods are determined under a range of stress scenarios. During 2017, the survival periods indicated by the stress tests met the requirement laid down in the risk appetite to be able to endure nine months without access to capital market funding. During this period, the bank is also capable to provide its core client groups with liquidity, fulfilling its ambition to assist its clients even in difficult times.

The bank believes that during 2017 its liquidity management was adequate 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.

LCR DISCLOSURE TEMPLATE (EU LIQ1)

	SCOPE OF CONSOLIDATION (CONSOLIDATED)	TOTAL UNWEIGHTED VALUE				TOTAL WEIGHTED VALUE			
	CURRENCY AND UNITS (EUR MILLION)	31/12/2017	30/09/2017	30/06/2017	31/03/2017	31/12/2017	30/09/2017	30/06/2017	31/03/2017
	NUMBER OF DATA POINTS USED IN THE CALCULATION OF AVERAGES	12	12	12	9	12	12	12	9
	HIGH-QUALITY LIQUID ASSETS								
1	Total high-quality liquid assets (HQLA)	–	–	–	–	25,006	23,792	21,204	19,201
	CASH-OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	0	0	0	0	0	0	0	0
3	Stable deposits	0	0	0	0	0	0	0	0
4	Less stable deposits	0	0	0	0	0	0	0	0
5	Unsecured wholesale funding	15,513	13,672	12,440	11,083	12,468	11,953	11,213	10,011
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
7	Non-operational deposits (all counterparties)	5,506	5,028	4,876	4,569	3,824	3,308	3,649	3,496
8	Unsecured debt	10,008	8,645	7,564	6,515	8,645	8,645	7,564	6,515
9	Secured wholesale funding	–	–	–	–	7	0	0	0
10	Additional requirements	16,995	16,941	16,844	16,769	6,634	6,630	6,620	6,612
11	Outflows related to derivative exposures and other collateral requirements	5,350	5,357	5,357	5,357	5,350	5,357	5,357	5,357
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	11,645	11,584	11,488	11,412	1,284	1,273	1,263	1,255
14	Other contractual funding obligations	5	5	5	5	0	0	0	0
15	Other contingent funding obligations	88	91	102	105	5	16	16	20
16	**TOTAL CASH OUTFLOWS**	**32,601**	**30,709**	**29,391**	**27,961**	**19,107**	**18,598**	**17,849**	**16,642**

Continued on next page

Continuation of previous page SCOPE OF CONSOLIDATION (CONSOLIDATED)		TOTAL UNWEIGHTED VALUE				TOTAL WEIGHTED VALUE			
CURRENCY AND UNITS (EUR MILLION)		31/12/2017	30/09/2017	30/06/2017	31/03/2017	31/12/2017	30/09/2017	30/06/2017	31/03/2017
NUMBER OF DATA POINTS USED IN THE CALCULATION OF AVERAGES		12	12	12	9	12	12	12	9
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	21	21	0	0	2	2	0	0
18	Inflows from fully performing exposures	5,115	4,951	4,560	4,603	3,541	3,253	3,253	3,001
19	Other cash inflows	0	0	0	0	0	0	0	0
EU-19A	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	–	–	–	–	0	0	0	0
EU-19B	Excess inflows from a related specialised credit institution)	–	–	–	–	0	0	0	0
20	**TOTAL CASH INFLOWS**	**5,136**	**4,972**	**4,560**	**4,603**	**3,544**	**3,255**	**3,253**	**3,001**
EU-20A	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20B	Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
EU-20C	Inflows Subject to 75% Cap	4,019	4,787	6,299	3,543	1,765	3,403	4,388	3,001
21	**LIQUIDITY BUFFER**	**–**	**–**	**–**	**–**	**25,006**	**23,792**	**21,204**	**19,201**
22	**TOTAL NET CASH OUTFLOWS**	**–**	**–**	**–**	**–**	**15,563**	**15,343**	**14,596**	**13,642**
23	**LIQUIDITY COVERAGE RATIO (%)**	**–**	**–**	**–**	**–**	**161%**	**155%**	**145%**	**141%**

FUNDING

BNG Bank distinguishes between short-term and long-term funding. The majority of funding is from institutional capital markets. The bank maintains a number of programmes that enables it to have access to liquidity at all times at competitive levels. The bank pursues pro-active investor relations which supports these efforts.

The following resources are used for short-term funding:
- Commercial Paper: the bank has a European Commercial Paper (ECP) programme of EUR 20 billion and a US Commercial Paper (USCP) programme of USD 15 billion. Under normal circumstances, a substantial margin is maintained between the maximum size allowed under the programme and the bank's actual usage;
- Repurchase transactions with interbank parties under a Global Master Repurchase Agreement (GMRA) where the bank's liquidity portfolio is used to pledge as collateral;
- Deposits from institutional money market parties.

The bank does not enter into transactions with private individuals and therefore has practically no retail deposits.

The following programmes are available for long-term funding:
- the Debt Issuance Programme (DIP) of EUR 100 billion. Socially Responsible Investing (SRI) bonds are also issued under this programme;
- the Kangaroo-Kauri Programme, specifically for the Australian and New Zealand market, of AUD 10 billion;
- the Samurai shelf registration and Uridashi shelf registration, specifically for Japanese investors;
- the Namen-Schuld-Verschreibungen (NSV), under German Law;
- and Private loan agreements.

For reasons of diversification, the bank also uses the following alternative funding sources in order to finance its activities:
- Global loans from the European Investment Bank and the Council of Europe development Bank;
- Guaranteed Investment Contracts (GICs).

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. 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 reported to the ALCO.

Operational risk

DEFINITIONS

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

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

GOVERNANCE

Line management has primary responsibility as the 'first line of defence' for managing operational risk in day-to-day operations, in conformity with policies and arrangements. In this, it is supported by specialised departments, such as the Internal Control department. Although operational risks cannot be fully mitigated, they must obviously be made transparent and manageable.

The departments Risk Management, Compliance and Security constitute the 'second line of defence' and are responsible for providing an overview and understanding of risks, as well as control guidelines. They support and advise line management by facilitating periodical risk control self assessments and by analysing operational risks. The risks, control measures and residual risks are identified and documented. The second line will propose supplementary control measures where necessary and monitor their timely implementation. Residual risks will be communicated to the responsible manager, who will, if applicable, advise the Executive Board on their acceptance. The Risk Management department is involved in projects and process changes in the context of operational risk management. The compliance officer is responsible for the periodical integrity risk analyses.

The IAD conducts independent assessments in supplement to the risk analyses by the departments Risk Management, Compliance and Security and the activities of the Internal Control department, in order to determine the existence and effect of control measures. The IAD thereby constitutes the 'third line of defence' and reports to the Executive Board.

Each year, the managing directors and the other direct reports inform the Executive Board whether they are in control of the processes and risks for which they are responsible.

DEVELOPMENTS

The focus on data quality has led to the introduction of the Data and Information Management department in 2016. This department is, amongst others, responsible for developing a joint data warehouse and has a leading role in the implementation of data governance processes. Business departments have a major responsibility for data quality. The aim of the data warehouse is to meet internal information needs, but also to comply with rapidly evolving external requirements like the Principles for Effective Risk Data Aggregation and Reporting (PERDARR). Often strict deadlines apply to requests for information both in normal and in times of stress or crisis. The bank must be able to produce risk information quickly and correctly.

The pilot within the credit process with a new style of working based on the Lean philosophy has resulted in working in multidisciplinary teams. Effectiveness and efficiency have improved, while preserving the controlled operations. Implications for employees have the attention of the management.

Several projects to ensure compliance to laws and regulations have started and have a considerable impact on business processes (notably MiFID/MiFIR and the General Data Protection Regulation).

The insight provided in operational risk has improved. In the quarterly Risk Report to the Executive Board and the Supervisory Board the operational risk exposure is measured and reported by the Risk Management department. For operational risk the use of an extensive set of indicators is relatively new and further tuning will be applied in 2018. The Risk Management department gives an opinion on the most important non-financial risks and has asked explicit management attention for the many simultaneous changes the bank is facing. The number of operational incidents did not materially increase in 2017.

Operational risk has a soft component, also referred to as ‘culture’. BNG Bank is convinced of the importance of this component. To improve the risk awareness various operational risk management activities are performed, such as periodically performing risk self assessments for all processes and taking the so called banker’s oath by all employees.

In 2017, the Information Security Officer was positioned in the Processing department instead of the Compliance department. This led to the enhancement of the information security function within the Processing directorate. In 2018 the bank will decide on a definitive positioning of the Information Security Officer.

GENERAL

BNG Bank registers all operational incidents with a potential impact of EUR 5,000. To this end, employees involved in the operational process are obliged to report all operational incidents to the Risk Management department. Remedial actions directly related to the incident are the responsibility of the first line. Additionally, the Risk Management department conducts an assessment in order to determine whether the prevention of future similar incidents will require any adjustments to the process, systems or working methods. Every quarter, the Risk Management department reports to the Executive Board and senior management on incidents with a possible impact from EUR 10,000 upwards. It also provides annual reports on incidents involving a loss of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. For 2017 the Incidents Report contains two incidents with an impact in excess of EUR 100,000. The impact of operational incidents on the bank's annual results in 2017 was limited. Incidents which pose a serious threat to the ethical conduct of the business must be reported to the regulator. No such incidents occurred in 2017.

IT RISK

The bank's information policy aims to develop and maintain information systems that allow the bank to continue executing its company strategy successfully. The information policy is reviewed annually, based on the business strategy objectives and external developments.

The management of IT risk is based on the application of preventative rather than remedial measures. These measures are aimed at preventing (potential) incidents or detecting them at the earliest possible opportunity and preventing the potential damages or restoring the desired situation as quickly as possible. In order to guarantee the continuity of IT support at the bank, a yearly fall-back test is conducted. Also in 2017 the test demonstrated that the bank's backup systems are adequately equipped to ensure that services continue as normal in the event of a calamity. Furthermore, the systems are frequently tested for vulnerabilities to hacking. All bank employees received information security training in 2017 in the form of interactive information sessions and e-learning. There were no major information security incidents in 2017.

To limit the IT risk, the bank seeks to reduce the complexity of its IT systems. The dynamics of the financial markets and statutory and regulatory requirements continue to constitute a challenge to the bank in this regard, resulting in a substantial project portfolio. The development of a central data warehouse also requires a large amount of IT capacity and will continue to do so in the next few years. Where necessary, external expertise and capacity is used. So far results are encouraging.

Agile working has been adopted for carrying out projects. A team which consists of employees of the business side, analysts and developers are working together in close collaboration to achieve the desired result. The 'product owner' has the deciding vote within the team, taking into account the interests of all stakeholders. Per project the most suitable project approach is selected. All projects are initiated and managed via the project portfolio. Many system adjustments are still prompted by changing laws and regulations.

OUTSOURCING RISK

BNG Bank's most important outsourcing contract relates to the outsourcing of the payment transaction process and a large portion of the bank's IT activities to Centric FSS. These activities include payment services and current account administration, the computing centre and workstation management. BNG Bank's activities are linked to those carried out by Centric FSS via Service Level Agreements (SLAs) and the bank's internal demand organisation. BNG Bank regularly monitors and evaluates the service provider's services. The ISAE 3402 statement annually issued by Centric FSS is part of this procedure. The IAD's periodical audits of Centric FSS provide extra assurance. The bank also structurally monitors the financial situation of Centric FSS and draws up contingency plans. Other services, such as the management of the building and installations, catering, cleaning and landscaping, have also been outsourced, with satisfactory results.

Cloud computing is becoming more and more common practice. BNG Bank is treating cloud computing as a way of outsourcing and performs a risk analysis as part of the outsourcing decision. Classification and ultimate destination of the data and the characteristics of the outsourcing party and the application are important factors in the decision. The decision to allow a cloud application is made by a multidisciplinary team.

INTEGRITY RISK

Integrity is a key part of the operations. The BNG Bank Code of Conduct (see website), featuring the core values: reliable, sustainable and professional, serves as a guideline for all actions undertaken by BNG Bank and its employees. New staff are assessed on their integrity before they take up their duties, irrespective of whether it concerns internal or external staff. The issue of integrity is highlighted among all staff on a regular basis. All current employees have individually taken the banker's oath and endorse the disciplinary regulations for banks. New staff also individually take the banker's oath and endorse the disciplinary regulations for banks. When employees take the oath, the importance of ethical conduct is discussed. The bank carries out a product approval process to ensure that its products serve the interests of its clients and do not involve any unacceptable risks for the clients and for the bank itself. The bank values acting with due care towards clients and other stakeholders over an exclusive focus on financial profit or other self-interests. The bank also expects its clients and other contacts to adhere to ethical standards and not to place the bank's reputation at risk. The bank has drawn up policy rules for this purpose, that are used as a basis for assessing new and existing clients and contacts. Compliance with internal and external rules is regularly reviewed within the bank. The Compliance department periodically carries out an integrity risk analysis and has not detected any major integrity issues in 2017.

LEGAL RISK

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

The bank has automated the administration of contractual provisions in agreements with clients, with the aim to standardise the conditions and provisions as much as possible. The internal (contract) models library is aligned with the contract administration and is subject to continuous further development and updating. This guarantees the enforceability of contractual agreements as much as possible, and the standardisation of conditions will result in an operational process that involves as little manual intervention as possible.

Where applicable, the JFC department seeks external assistance, for example in the event of complex (often syndicated) transactions and in cases requiring specialist legal knowledge.

As at year-end 2017, BNG Bank was not involved in any material legal proceedings.

Strategic risk

DEFINITIONS

Strategic risk is defined as the risk that strategic decisions of the institution itself could result, in the execution of those decisions, in losses and/or the chance of losses as a result of changes beyond the control of the institution or group in the area of the bank's competitive position, the political climate, regulatory developments, reputation and business climate. In addition to general strategic risks, the following aspects can be identified:

- Reputation risk: The risk that the institution's market position will deteriorate due to a negative perception of its image amongst stakeholders.
- Business climate: The likelihood of losses due to environmental changes in terms of the economy, stock exchange climate, wage and/or purchasing power developments, broader society, technology and by the activities, actions and/or decisions of (new) competitors.
- Political risk: The risk that the institution's competitive and market position will be influenced by the political climate and stakeholder influence.
- Regulatory risk: The risk that developments in regulatory requirements will materially impact the business model and complexity of operations.

GOVERNANCE

Strategic risks are driven by external factors in particular and hence are less easily influenced or predictable. Furthermore, strategic risks are often closely interlinked with one of the other risk types (e.g. operational risks can have an effect on the reputation of BNG Bank or a changing business climate causes changes in the credit risk or interest rate risk profile of BNG Bank). Therefore, strategic risk has no dedicated general policy of its own. Instead, strategic risks are incorporated in the annual plan of BNG Bank and the business plans of the individual departments. Strategic risk is also addressed in the Capital Management Plan (as part of the ICAAP). Decisions on strategic risk are the responsibility of the Executive Board, although discussions generally also take place in Management Board or ALCO meetings depending on the exact nature of the strategic risk. The monitoring is organized by means of the planning- and budget cycle.

DEVELOPMENTS

Strategic risks are driven by the external environment of the bank which is evolving continuously. As usual, the bank has been in close contact with its stakeholders to discuss and evaluate these developments. From a strategic perspective, the bank has focussed on three major subjects.

Firstly, from a perspective of competition, the bank has increased its efforts to operate close to its customers interests, by communicating with them in many ways but also in developing new products and updating existing products according to their wishes, whilst retaining its sharp pricing profile. Competition from other banks as well as institutional investors was more fierce in 2017 than in the preceding years, although the bank was able to hold the balance between retaining acceptable margins and substantial market shares in new transactions. From its scale and business model, it is not necessary and, from a cost perspective, not desirable to be a technological frontrunner. However, smart following including continuous innovation is necessary for customer experience as well as cost efficiency.

Secondly, the bank has continued its efforts in the field of sustainability, which is described in more detail in the annual report. An example in this respect was the development of a Sustainability Fund for specific projects.

Thirdly, the bank is focusing on organisational flexibility in the field of human resource management. Job rotation as well as life long learning is actively promoted by the Management Board and is supported by a range of learning facilities, including coaching. The job market is already tight for staff with the required qualifications and expected to be tightening further. Especially staff with a combination of relevant technical skills and in depth knowledge of banking is scarce and job rotations as well as internships stimulate existing staff to extend its skills, thus reducing the risk of job loss caused by changing demands.

Furthermore, the bank has closely followed all developments regarding Brexit. In terms of assets, the exposure to the UK is relatively small and the quality of these assets is high. For funding purposes the bank is not materially dependent on the UK. Furthermore, the bank has virtually no exposure to the EUR/GBP exchange rate. The most extensive ties with the UK relate to the large amount of derivatives transactions with banks in the UK and to central clearing through the clearing house LCH. In general, larger banks in London are in talks with the European Central Bank about moving operations to the European mainland to prepare for the situation that Brexit takes place without a trade deal between the EU and the UK. Clearing houses of systemic importance like LCH may be explicitly forced by the EU to move to a location within the EU. The bank discusses the developments related to Brexit in its Financial Counterparty Committee.

In 2017 no specific further events or changes occurred that materially changed the strategic risk profile of BNG Bank. Neither did the processes to monitor and analyse these strategic risks.

REPUTATION RISK

BNG Bank always aims to provide products and services that are in the client's interest. This is of vital importance for its reputation as a bank of and for the public sector. This is reflected not only in the bank offering products that its clients ask for, but especially in a certain reticence if it is not sufficiently clear that a particular product is in the clients' interest. The bank will stress this when it receives requests for financing arrangements which it considers unsuitable for the client concerned. This applies in particular to smaller organisations of which the bank has reason to believe that they lack the in-house expertise to manage the risks of the product in question. This is factored into the bank's product approval process.

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

To provide its clients with innovative forms of lending, a limited time to market is desirable from a strategic as well as a commercial perspective. However, insufficient care during implementation can lead to problems that could harm the bank's reputation. In 2017 the existing product approval process has been supplemented with a formal Product Approval and Review Policy as well as extensive product approval templates. In these templates much attention is paid to the suitability of products for the banks clients. The new product approval templates will be filled for new as well as existing products. Part of this has taken place in 2017 and the other products will follow in 2018.

Since reputation risk is included in the risk appetite of the bank, it is also part of the associated monitoring.

BUSINESS CLIMATE

The low interest rate environment in the EU has a lowering effect on earnings and return on equity. The relatively long maturities of the bank's assets result in a slower materialisation of this effect for BNG bank than for most other banks. However, the effect is still there. Given the fact that the interest rate environment is explicitly taken into account in the shareholders opinion on the required return and that the shareholders are not demanding a maximum but only a reasonable return on their shareholdings the interest rate environment as such is not threatening the business model of the bank.

The relatively low credit margins characteristic of the market in which BNG Bank operates act as an obstacle to potential new entrants. Scale and efficiency are key to a profitable business model. Parties striving to maximise their profits will thus enter this market on a limited scale. Although competition is still relatively limited, as described above, it has increased due to the fact that institutional parties such as pension funds and insurers do enter this market on an irregular basis. Other parties are show an interest in financing DBFMO projects.

POLITICAL RISK

At BNG Bank, business climate and political risk are closely linked, because public authorities are both shareholders and clients. Therefore, BNG Bank has a high dependency risk with respect to political decisions. Especially decisions that impact regulations for client sectors that represent large portions of the bank's balance sheet. Due to public sector cuts in recent years, BNG Bank's loan portfolio marginally declined.

The political climate with respect to the different sectors in which BNG Bank operates has stabilised in 2017 compared to the preceeding years. For the longer term, BNG Bank expects that a smaller part of the funding of the housing sector will be guaranteed by the Social Housing guarantee fund than is now the case. This will impact the credit risk profile of these loans. Developments are being monitored continuously. If any changes would be decided upon, these are expected to be implemented incrementally, allowing for a smooth transition for the housing sector.

BNG Bank incidentally invested modest amounts of risk-bearing capital in area development projects. This allows the bank to participate in such projects also in its capacity as lender. Market conditions in this sector have been difficult after the crisis of 2008, and activities are directed primarily at managing and phasing out the existing portfolio. New projects are only considered if the risk profile is considerably safer than before.

REGULATORY RISK

Changing regulations remain a potential threat. The bank is specifically exposed to potential changes in solvency requirements based on notional amounts, like the total size of the balance sheet, because almost all of its assets are low risk and most of them are even zero risk weighted. Another potential threat is the Bank Recovery and Resolution Directive (BRRD) by the EU, which poses the question of whether the shareholders are permitted to assist BNG Bank in the event of acute problems, without rising discussions on state aid or a bail-in. The details of the directive governing the MREL requirement (Minimum Requirement for own funds and Eligible Liabilities) can also affect how the bank meets its funding needs. The precise form of these bail-in regulations as well as the interpretation by the Single Resolution Board in the context of promotional banks is still undetermined.

In the long term further changes are to be expected as the Basel Committee published in December 2017 a report on further reforms of the regulatory framework. For full implementation of these reforms a transition period is included up to 2027. These reforms now need to be incorporated in the regulatory framework of the European Union in the upcoming years. Currently, potential impact on capital or liquidity requirements seems limited on BNG Bank. However, the incorporation of these reforms in EU regulation will determine the exact impact. And besides any direct capital or liquidity impact the associated reporting requirements and implementation of regulations might take up considerable resources of BNG Bank.

Scope of application (article 436 CRR)

The requirements of the Capital Requirements Regulation apply to the N.V. Bank Nederlandse Gemeenten (BNG Bank). BNG Bank has two subsidiaries that operate in support of the bank's core business activity. There is no difference in scope of consolidation for accounting and prudential purposes for BNG Bank. 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 the following subsidiaries over which BNG Bank has control:

- BNG Gebiedsontwikkeling: To directly or indirectly provide (venture) capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities or institutions affiliated with public authorities.
- Hypotheekfonds voor Overheidspersoneel: 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.

Differences between accounting and regulatory scopes of consolidation and mapping of financial categories to regulatory risk categories (EU LI1)

						31/12/2017
	CARRYING VALUES AS REPORTED IN PUBLISHED FINANCIAL STATEMENTS AND FOR REGULATORY CONSOLIDATION	CARRYING VALUES OF ITEMS SUBJECT TO CREDIT RISK FRAMEWORK	CARRYING VALUES OF ITEMS SUBJECT TO COUNTERPARTY CREDIT RISK FRAMEWORK	CARRYING VALUES OF ITEMS SUBJECT TO SECURITISATION FRAMEWORK	CARRYING VALUES OF ITEMS SUBJECT TO MARKET RISK FRAMEWORK	CARRYING VALUES OF ITEMS NOT SUBJECT TO CAPITAL REQUIREMENTS OR SUBJECT TO DEDUCTION OF CAPITAL
ASSETS						
Cash and balances with the central banks	2,996	2,996	–	–	–	–
Amounts due from banks	13,997	105	13,892	–	3	–
Financial assets at fair value through the income statement	2,006	1,798	–	208	913	–
Derivatives	8,982	–	8,982	–	2,902	–
Financial assets available-for-sale	14,110	11,064	–	3,021	683	25
Loans and advances	86,008	85,956	–	52	131	–
Value adjustments on loans in portfolio hedge accounting	11,813	11,813	–	–	–	–
Investments in associates and joint ventures	47	47	–	–	–	–
Property & equipment	17	14	–	–	–	3
Other assets	19	19	–	–	1	–
Assets Held-for-Sale	30	30	–	–	–	–
TOTAL ASSETS	**140,025**	**113,842**	**22,874**	**3,281**	**4,633**	**28**
LIABILITIES						
Amounts due to banks	2,393	–	314	–	1,832	247
Financial liabilities at fair value through the income statement	944	–	–	–	810	134
Derivatives	21,870	–	21,870	–	3,495	–
Current Tax Liability	17	–	–	–	–	17
Deferred Tax Liability	173	–	–	–	–	173
Debt securities	104,127	–	–	–	54,424	49,703
Funds entrusted	5,472	–	55	–	1,947	3,470
Subordinated debts	31	–	–	–	–	31
Other liabilities	45	–	–	–	–	45
TOTAL LIABILITIES	**135,072**	**–**	**22,239**	**–**	**62,508**	**53,820**

						31/12/2016
	CARRYING VALUES AS REPORTED IN PUBLISHED FINANCIAL STATEMENTS AND FOR REGULATORY CONSOLI-DATION	CARRYING VALUES OF ITEMS SUBJECT TO CREDIT RISK FRAMEWORK	CARRYING VALUES OF ITEMS SUBJECT TO COUNTER-PARTY CREDIT RISK FRAMEWORK	CARRYING VALUES OF ITEMS SUBJECT TO SECURITI-SATION FRAMEWORK	CARRYING VALUES OF ITEMS SUBJECT TO MARKET RISK FRAMEWORK	CARRYING VALUES OF ITEMS NOT SUBJECT TO CAPITAL RE-QUIREMENTS OR SUBJECT TO DEDUCTION OF CAPITAL
ASSETS						
Cash and balances with the central banks	6,417	6,417	–	–	–	–
Amounts due from banks	11,795	254	11,541	–	3	–
Financial assets at fair value through the income statement	2,350	2,118	–	233	961	–
Derivatives	15,412	–	15,412	–	7,787	–
Financial assets available-for-sale	15,437	12,235	–	3,172	785	29
Loans and advances	87,576	87,522	–	54	139	–
Value adjustments on loans in portfolio hedge accounting	14,894	14,894	–	–	–	–
Investments in associates and joint ventures	46	46	–	–	–	–
Property & equipment	17	17	–	–	–	–
Other assets	56	56	–	–	2	–
TOTAL ASSETS	**154,000**	**123,559**	**26,953**	**3,459**	**9,677**	**29**
LIABILITIES						
Amounts due to banks	3,530	–	1,698	–	1,782	50
Financial liabilities at fair value through the income statement	1,190	–	–	–	1,020	170
Derivatives	24,780	–	24,780	–	1,841	–
Current Tax Liability	31	–	–	–	–	31
Deferred Tax Liability	116	–	–	–	–	116
Debt securities	112,180	–	–	–	63,378	48,802
Funds entrusted	7,557	–	–	–	2,347	5,210
Subordinated debts	31	–	–	–	–	31
Other liabilities	99	–	–	–	–	99
TOTAL LIABILITIES	**149,514**	**–**	**26,478**	**–**	**70,368**	**54,509**

Main sources of differences between regulatory exposure amounts and carrying values (EU LI2)

					31/12/2017
	TOTAL	ITEMS SUBJECT TO CREDIT RISK FRAMEWORK	ITEMS SUBJECT TO COUNTER-PARTY CREDIT RISK FRAMEWORK	ITEMS SUBJECT TO SECURITI-SATION FRAMEWORK	ITEMS SUBJECT TO MARKET RISK FRAMEWORK
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	139,997	113,842	22,874	3,281	4,633
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	81,252	–	22,239	–	62,508
TOTAL NET AMOUNT UNDER REGULATORY SCOPE OF CONSOLIDATION	**58,745**	**113,842**	**635**	**3,281**	**−57,875**
Off-balance sheet amounts before CCF after provisions	12,743	12,510	–	233	–
Differences due to application of the overall net FX position	57,791	–	–	–	57,791
Differences due to application of Mark-to-Market Method and contractual netting for CCR	2,516	–	2,516	–	–
Differences between financial statements and exposure value due to valuation and netting	1,108	−30	–	–	–
EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES	**132,903**	**126,322**	**3,151**	**3,514**	**−84**

	31/12/2016				
	TOTAL	ITEMS SUBJECT TO CREDIT RISK FRAMEWORK	ITEMS SUBJECT TO COUNTER-PARTY CREDIT RISK FRAMEWORK	ITEMS SUBJECT TO SECURITI-SATION FRAMEWORK	ITEMS SUBJECT TO MARKET RISK FRAMEWORK
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	153,971	123,559	26,953	3,459	9,677
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	95,005	–	26,478	–	70,368
TOTAL NET AMOUNT UNDER REGULATORY SCOPE OF CONSOLIDATION	**58,966**	**123,559**	**475**	**3,459**	**−60,691**
Off-balance sheet amounts before CCF after provisions	14,005	13,743	–	262	–
Differences due to application of the overall net FX position	60,578	–	–	–	60,578
Differences due to application of Mark-to-Market Method and contractual netting for CCR	4,313	–	4,313	–	–
Differences between financial statements and exposure value due to valuation and netting	7,829	−7	–	–	–
Difference due to treatment of collateral	11,541	11,541	–	–	–
EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES	**157,232**	**148,836**	**4,788**	**3,721**	**−113**

Explanations of differences between accounting and regulatory exposure (EU LIA)

The consolidation scope for the purpose of calculating Regulatory Capital is equal to the consolidation scope under IFRS. The main differences between the carrying value of assets under the scope of regulatory consolidation and the exposure amounts considered for regulatory purposes can be explained by the inclusion of the off-balance sheet liabilities in the exposure amounts for regulatory purposes, the exclusion of items that are capital deducted and the different valuation of derivatives due to netting rules and collateral. The market risk framework for regulatory purposes consists for BNG Bank only of the standardised approach for foreign exchange risk. In table LI1 the column for the market risk framework show all transactions with a foreign currency component. After eliminating the transactions denominated in Euro this results in table LI2 in a minor short position for both year-end 2017 and year-end 2016.

Outline of the differences in the scopes of consolidation (EU LI3)

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
		FULLY CONSOLIDATION	PROPORTIONAL CONSOLIDATION	NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	
BNG Gebieds-ontwikkeling BV	Fully consolidation	X				To directly or indirectly provide (venture) capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities or institutions affiliated with public authorities.
Hypotheek-fonds voor overheids-personeel BV (HVO)	Fully consolidation	X				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.

Own funds (article 437 CRR)

Balance sheet reconciliation

BNG Bank's capitalization is well above the fully-loaded 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.

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.

Equity attributable to the shareholders includes reserves which consist of a revaluation reserve, the cash flow hedge reserve, a reserve for fair value increases as well as retained earning from previous years. This equity amounts to EUR 4,221 million at end of 2017 and a full breakdown is included in the Annual report (pp. 161-163).

HYBRID CAPITAL

The bank's hybrid capital amounts to EUR 733 million. In 2017 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 payment for corporate income tax purposes has led to a public debate and the announcement of an enquiry by the European Commission into this subject in relation to potentially incompatible state aid. If the European Commission makes a negative recommendation, this could mean that BNG Bank will be required to repay the tax benefits and/or that future deductibility will no longer be permitted.

The instrument is 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.

The tables below show the structure of the regulatory capital. The tables present the capital in the transitional situation and the capital after full phasing-in (2018).

			31/12/2017
	CAPITAL (TRANSITIONAL)	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	
– Unrealised losses in the revaluation reserve	9	–	
– Unrealised gains in the revaluation reserve	–60	–	
CET1 CAPITAL	**3,533**	**3,584**	
Additional Tier 1 capital:	733	733	733
TIER 1 CAPITAL	**4,266**	**4,317**	
TOTAL EQUITY			**4,953**

			31/12/2016
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Paid-up capital	139	139	139
Share premium	6	6	6
Retained earnings from previous years	2,961	2,961	2,961
Unappropriated profit			369
Accumulated other comprehensive income			
– Cash flow hedge reserve	3	3	3
– Revaluation reserve	275	275	275
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**3,384**	**3,384**	**3,753**
Adjustments to CET1 capital as a result of prudential filters:			
– Cash flow hedge reserve	−3	−3	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	−19	−19	
– Own credit risk for Financial liabilities at fair value through the income statement	−24	−24	
– 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%	−29	−29	
Transitional adjustments to CET1 capital:			
– Unrealised losses in the revaluation reserve	25	–	
– Unrealised gains in the revaluation reserve	−126	–	
CET1 CAPITAL	**3,200**	**3,301**	
Additional Tier 1 capital:	733	733	733
TIER 1 CAPITAL	**3,933**	**4,034**	
TOTAL EQUITY			**4,486**

PRUDENTIAL FILTERS

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

- The cash flow hedge reserve is eliminated in its entirety.
- The benefits arising from own credit risk in derivatives transactions are eliminated in their entirety.
- The benefits arising from 'own credit risk' in relation to obligations classified as Financial liabilities at fair value through the income statement are eliminated in their entirety.
- 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.

DEDUCTIBLE ITEMS

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

ADJUSTMENTS IN CRD IV/CRR TRANSITION PHASE

The portion of unrealised gains and losses from the revaluation reserve for Financial assets available-for-sale included in the CET1 capital was 80% in 2017 (2016: 60%).

Capital instruments' main features template

N.V. BANK NEDERLANDSE GEMEENTEN				
1	Issuer	N.V. Bank Nederlandse Gemeenten	N.V. Bank Nederlandse Gemeenten	N.V. Bank Nederlandse Gemeenten
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)		XS1311037433	XS1453520378
3	Governing law(s) of the instrument	Laws of the Netherlands	Laws of the Netherlands	Laws of the Netherlands
REGULATORY TREATMENT				
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (sub-)consolidated	Solo & (sub-)consolidated	Solo & (sub-)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share	Perpetual Capital Security	Perpetual Capital Security
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 145	EUR 424	EUR 309
9	Nominal amount of instrument	EUR 139	EUR 424	EUR 309
9A	Issue price	n/a	100% for 1st tranche at 16/11/2015 (a 2nd tranche was issued on 15/12/2015 on the same terms with a price of 100.61%)	100% for 1st tranche at 28/07/2016 (two follow-up tranches were issued in second half of 2016 on same terms at 100.34% and 99.72% respectively)

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N.V. BANK NEDERLANDSE GEMEENTEN			
9B Redemption price	n/a	Subject to write down	Subject to write down
10 Accounting classification	Shareholders' equity	Equity	Equity
11 Original date of issuance	23 December 1914	16 November 2015	28 July 2016
12 Perpetual or dated	Perpetual	Perpetual	Perpetual
13 Original maturity date	No maturity	No maturity	No maturity
14 Issuer call subject to prior supervisory approval	No	Yes	Yes
15 Optional call date, contingent call dates, and redemption amount	n/a	16 May 2021 and every interest payment date thereafter, Tax and/or regulatory event call, Redemption at prevailing principal amount	16 May 2022 and every interest payment date thereafter, Tax and/or regulatory event call, Redemption at prevailing principal amount
16 Subsequent call dates, if applicable	n/a	Interest payment date (16 May)	Interest payment date (16 May)
COUPONS/DIVIDENDS			
17 Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18 Coupon rate and any related index	n/a	3.622%, resettable on 16 May 2021 and every 5 years afterwards equal to prevailing 5-year Mid-Swap Rate plus initial margin	3.277%, resettable on 16 May 2022 and every 5 years afterwards equal to prevailing 5-year Mid-Swap Rate plus initial margin
19 Existence of a dividend stopper	n/a	n/a	n/a
20A Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20B Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary
21 Existence of step up or other incentive to redeem	n/a	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible

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N.V. BANK NEDERLANDSE GEMEENTEN

24	If convertible, conversion trigger(s)	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a
30	Write-down features	No	Yes	Yes
31	If write-down, write-down trigger(s)	n/a	CET1 ratio < 5.125%	CET1 ratio < 5.125%
32	If write-down, fully or partially	n/a	Partially	Partially
33	If write-down, permanent or temporary	n/a	Temporary	Temporary
34	If temporary write-down, description of write-up mechanism	n/a	Pro rata with other Discretionary Temporary Write-down Instruments, subject to MDA and Maximum Write-up Amount	Pro rata with other Discretionary Temporary Write-down Instruments, subject to MDA and Maximum Write-up Amount
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1 instruments	Tier 2 instruments	Tier 2 instruments
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features			

Transitional own funds disclosure template

	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	145	145	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Ordinary shares	139	139	EBA list 26 (3)	
	of which: Share premium	6	6	EBA list 26 (3)	
	of which: Instrument type 3	–	–	EBA list 26 (3)	
2	Retained earnings	3,221	2,961	26 (1) (c)	
3	Accumulated other comprehensive income (and any other reserves)	461	278	26 (1)	
3A	Funds for general banking risk	–	–	26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	–	–	486 (2)	
	Public sector capital injections grandfathered until 1 january 2018			483 (2)	
5	Minority interests (amount allowed in consolidated CET1)	–	–	84, 479, 480	
5A	Independently reviewed interim profits net of any foreseeable charge or dividend	–	–	26 (2)	
6	**COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS**	**3,827**	**3,384**		

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS					
7	Additional value adjustments (negative amount)	−8	−8	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	−2	–	36 (1) (b), 37, 472 (4)	
9	Empty set in the EU	–	–		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–	–	36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges	−193	−3	33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	–	–	36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that results from securitised assets (negative amount)	–	–	32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	−15	−43	33 (1) (b) (c)	
15	Defined-benefit pension fund assets (negative amount)	–	–	36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–	–	36 (1) (f), 42, 472 (8)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–	36 (1) (g), 44, 472 (9)	

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
18 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	–	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	–	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20 Empty set in the EU	–	–		
20A Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–25	–29	36 (1) (k)	
20B of which: qualifying holdings outside the financial sector (negative amount)	–	–	36 (1) (k) (i), 89 to 91	
20C of which: securitisation positions (negative amount)	–25	–29	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	
20D of which: free deliveries (negative amount)	–	–	36 (1) (k) (iii), 379 (3)	
21 Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22 Amount exceeding the 15% threshold (negative amount)	–	–	48 (1)	

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	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	–	–	36 (1) (i), 48 (1) (b), 470, 472 (11)	
24	Empty set in the EU	–	–		
25	of which: deferred tax assets arising from temporary difference	–	–	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25A	Losses for the current financial year (negative amount)	–	–	36 (1) (a), 472 (3)	
25B	Foreseeable tax charges relating to CET1 items (negative amount)	–	–	36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	−51	−100		51[6]
26A	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	−51	−100		51
26B	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	–	–	481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	–	–	36 (1) (j)	
28	**TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1 (CET1)**	**−294**	**−184**		
29	**COMMON EQUITY TIER 1 (CET1) CAPITAL**	**3,533**	**3,200**		

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[6] As a consequence of CRR the revaluation reserve is gradually phased in, in 2017 80% of the unrealized gains and losses from this revaluation reserve are included. Since BNG Bank has fully included its net gain in its CET1, 20% of this gain is deducted as a regulatory adjustment (EUR 51 mln in 2017). When CRR is fully phased in, this deduction would no longer be necessary and this would lead to a 0,4% increase of the capital ratios.

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	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
	ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS				
30	Capital instruments and the related share premium accounts	733	733	51, 52	
31	of which: classified as equity under applicable accounting standards	733	733		
32	of which: classified as liabilities under applicable accounting standards	–	–		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	–	–	486 (3)	
	Public sector capital injections grandfathered until 1 january 2018	–	–	483 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	–	–	85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out	–	–	486 (3)	
36	**ADDITIONAL TIER 1 (AT1) CAPITAL BEFORE REGULATORY ADJUSTMENTS**	**733**	**733**		
	ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–	–	52 (1) (b), 56 (a), 57, 475 (2)	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–	56 (b), 58, 475 (3)	

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
39 Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	–	56 (c), 59, 60, 79, 475 (4)	
40 Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	–	56 (d), 59, 79, 475 (4)	
41 Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	0	–		
41A Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	–	472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
41B Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	–	–	477, 477 (3), 477 (4) (a)	
41C Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	–	467, 468, 481	

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	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	–	–	56 (e)	
43	**TOTAL REGULATORY ADJUSTMENTS TO ADDITIONAL TIER 1 (AT1) CAPITAL**	**0**	**–**		
44	**ADDITIONAL TIER 1 (AT1) CAPITAL**	**733**	**733**		
45	**ADDITIONAL TIER 1 (AT1) CAPITAL**	**4,266**	**3,933**		
	TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS				
46	Capital instruments and the related share premium accounts	–	–	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–	–	486 (4)	
	Public sector capital injections grandfathered until 1 january 2018	–	–	483 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	–	–	87, 88, 480	
49	of which: instruments issued by subsidiaries subject to phase-out	–	–	486 (4)	
50	Credit risk adjustments	–	–	62 (c) & (d)	
51	**TIER 2 (T2) CAPITAL BEFORE REGULATORY ADJUSTMENT**	**–**	**–**		

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	–	63 (b) (i), 66 (a), 67, 477 (2)	
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	–	–	66 (b), 68, 477 (3)	
	–	–		
54 Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	–	66 (c), 69, 70, 79, 477 (4)	
54A Of which new holdings not subject to transitional arrangements	–	–		
54B Of which holdings existing befor 1 January 2013 and subject to transitional arrangements	–	–		
55 Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	–	–	66 (d), 69, 79, 477 (4)	
56 Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–	–		

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
56A Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	–	472, 472(3) (a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	
56B Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	–	–	475, 475 (2) (a), 475 (3), 475 (4) (a)	
56C Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	–	–	467, 468, 481	
57 TOTAL REGULATORY ADJUSTMENTS TO TIER 2 (T2) CAPITAL	**–**	**–**		
58 TIER 2 (T2) CAPITAL	**–**	**–**		
59 TOTAL CAPITAL (TC = T1 + T2)	**4,266**	**3,933**		
59A Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	–	–		
Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	–	–	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	–	–	475, 475 (2) (b), 475 (2) ©, 475 (4) (b)	
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	–	–	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	
60 TOTAL RISK-WEIGHTED ASSETS	**11,641**	**12,327**		
CAPITAL RATIOS AND BUFFERS				
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	30.4%	26.0%	92 (2) (a), 465	−0.4%[6]
62 Tier 1 (as a percentage of total risk exposure amount)	36.7%	31.9%	92 (2) (b), 465	−0.4%[6]
63 Total capital (as a percentage of total risk exposure amount)	36.7%	31.9%	92 (2) (c)	−0.4%[6]

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[6] As a consequence of CRR the revaluation reserve is gradually phased in, in 2017 80% of the unrealized gains and losses from this revaluation reserve are included. Since BNG Bank has fully included its net gain in its CET1, 20% of this gain is deducted as a regulatory adjustment (EUR 51 mln in 2017). When CRR is fully phased in, this deduction would no longer be necessary and this would lead to a 0,4% increase of the capital ratios.

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	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	6.250%	5.375%	CRD 128, 129, 140	
65	of which: capital conservation buffer requirement	1.250%	0.625%		
66	of which: countercyclical buffer requirement	–	–		
67	of which: systemic risk buffer requirement	–	–		
67A	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.50%	0.25%	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	30.4%	26.0%	CRD 128	
69	(non-relevant in EU regulation)	–	–		
70	(non-relevant in EU regulation)	–	–		
71	(non-relevant in EU regulation)	–	–		
	AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK-WEIGHTING)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	36 (1) (i), 45, 48, 470, 472 (11)	
74 Empty set in the EU	–	–		
75 Deferred tax assets arising from temporary difference (amount below 10% threshold , net of related tax liability where the conditions in Article 38 (3) are met)	–	–	36 (1) (c), 38, 48, 470, 472 (5)	
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2				
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	–	62	
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	–	–	62	
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	–	–	62	
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	–	–	62	
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2014 AND 1 JAN 2022)				
80 Current cap on CET1 instruments subject to phase-out arrangements	–	–	484 (3), 486 (2) & (5)	

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COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT 31/12/2017	(A) AMOUNT AT 31/12/2016	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–	484 (3), 486 (2) & (5)	
82	Current cap on AT1 instruments subject to phase-out arrangements	–	–	484 (4), 486 (3) & (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–	484 (4), 486 (3) & (5)	
84	Current cap on T2 instruments subject to phase-out arrangements	–	–	484 (5), 486 (4) & (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–	484 (5), 486 (4) & (5)	

Capital requirements (article 438 CRR)

Capital and solvency

DEFINITIONS

Regulatory capital relates to the capital requirements under the Basel framework. For Pillar 1 the capital requirement is based on the aggregated risk-weighted assets (RWA) for the three major risk types (credit, operational and market risk). 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 we deem adequate to 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 2017, the phase-in CRD IV Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were respectively 30%, 37% and 37%. All capital ratios were well above regulatory minimum requirements. BNG Bank’s capital position strengthened compared to 31 December 2016 driven by profit accumulation.

BNG Bank is required in 2018 to meet a minimum CET1 ratio of 8.875%, composed of a SREP requirement of 6.25% (4.5% Pillar 1 requirement and 1.75% Pillar 2 requirement), a phased-in systemic risk buffer (SrB) of 0.75% and a capital conservation buffer (CCB) of 1.875%. The SrB is expected to increase by 0.25% next year to its final level of 1% in 2019. The CCB will increase by

0.625% next year to its final level of 2.5% in 2019. BNG Bank amply meets the requirements. The MDA trigger level for BNG Bank is 8.875% of CET1 capital. Based on full phase-in of the SrB and CCB the fully loaded MDA trigger level is expected to increase to 9.75%.

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 (see subsection on regulatory framework) BNG Bank is not changing this policy now, but expects to update it in 2018 and present it to the General Meeting of Shareholders early 2019. That having said, BNG Bank proposes to increase the dividend distribution to 37.5% for the year 2017. This is supported by the solid performance on the ratio's per year-end 2017 and the high net profit over the fiscal year 2017. Further support is given by the satisfactory outcomes of both the 2017 EBA Stress Test on interest rate risk and the scenarios that were used in the recovery plan.

	31/12/2017		31/12/2016	
SOLVENCY	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
CRD IV/CRR (TRANSITIONAL)				
Tier 1 capital	1,135	4,266	1,094	3,933
Total capital ratio	9.75%	37%	8.875%	32%
– Pillar I	8%		8%	
– Combined Buffer Requirement	1.75%		0.875%	
Common Equity Tier 1 capital	728	3,533	663	3,200
Common Equity Tier 1 ratio	6.25%	30%	5.375%	26%
– Pillar I	4.5%		4.5%	
– Combined Buffer Requirement	1.75%		0.875%	
CRD IV/CRR (FULLY PHASED IN)				
Tier 1 capital	1,339	4,317	1,418	4,034
Total capital ratio	11.5%	37%	11.5%	33%
– Pillar I	8%		8%	
– Combined Buffer Requirement	3.5%		3.5%	
Common Equity Tier 1 capital	931	3,584	986	3,301
Common Equity Tier 1 ratio	8%	31%	8%	27%
– Pillar I	4.5%		4.5%	
– Combined Buffer Requirement	3.5%		3.5%	

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 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.

REGULATORY FRAMEWORK

The European Commission issued in November 2016 draft texts to amend CRD IV, CRR and BRRD. The legislative process is still ongoing with an expected adoption in 2018. In the context of capital, the leverage ratio and the Minimum Requirement for own funds and Eligible Liabilities (MREL) requirement are the main important subjects for BNG Bank.

The CRR introduces a non-risk based leverage ratio which would be monitored until 2017 and further refined and calibrated before becoming a binding measure as from 2018. As this binding measure is part of CRR 2, the details have not been finalised yet. Discussions are still ongoing over the required level, potentially depending on significance, and a proportional treatment of promotional banks. Developments in this respect are being monitored. BNG Bank's capital planning is based on the 3% level communicated to date and reaffirmed by Basel IV (see below). As of December 2017, BNG Bank meets this target.

The BRRD provides authorities with more comprehensive and effective measures to deal with failing banks. The bail-in framework of the BRRD has been applicable since January 2016. The bail-in framework introduced an additional loss-absorbing measure, MREL. The definite requirements, in terms of both level and eligible instruments, have not been established yet. Next, the MREL requirement will be an institution specific requirement determined by the Single Resolution Board (SRB). As such, any future requirement will depend both on final regulations as well as on the assessment of the SRB. The Single Resolution Board (SRB) is responsible for preparing the resolution plan for BNG Bank. The SRB has not concluded its plan yet.

If the to be determined MREL requirement cannot be met with existing instruments, BNG Bank will likely use the new category of unsecured debt introduced by an – to be transposed in national law – EU harmonised approach on the priority ranking of bank bond holders in insolvency and in resolution to meet these requirements. The developments have been closely monitored during 2017 and BNG Bank will continue to do so in 2018.

Commonly referred to as Basel IV, the Basel Committee on Banking Supervision has issued in December 2017 post crisis reforms. While introducing changes to the Standardised Approach, the framework aims specifically to enhance the reliability and comparability of risk-weighted capital ratios under the Internal Model approach. As such, the changes will impact the capital position of BNG Bank but are not expected to impact it in a material way. The treatment of sovereign exposures is not part of Basel IV. Revisions to this approach are part of a discussion paper. As sovereign exposures form a significant part of BNG Bank's exposures, any changes to the treatment of these exposures will have a significant impact on BNG Bank's capital ratios. Developments in this area will be monitored closely.

Overview of RWA (EU OV1)

The table below shows an overview of total RWA (risk weighted assets) with the corresponding minimum capital requirements.

	31/12/2017	30/09/2017	31/12/2017	30/09/2017
	RWA		MINIMUM CAPITAL REQUIREMENT	
CREDIT RISK (EXCLUDING CCR)	**8,374**	**8,387**	**670**	**671**
Of which standardised approach (SA)	8,374	8,387	670	671
Of which the foundation IRB (FIRB)	–	–	–	–
Of which the advanced IRB (AIRB)	–	–	–	–
Of which Equity IRB under the simple risk-weighted approach or the IMA	–	–	–	–
COUNTERPARTY CREDIT RISK	**1,221**	**1,239**	**98**	**99**
Of which mark-to-market	–	–	–	–
Of which original exposure	–	–	–	–
Of which the standardised approach	11	6	1	0
Of which internal model method (IMM)	–	–	–	–
Of which risk exposure amount for contributions to the default fund of a CCP	–	–	–	–
Of which CVA	1,210	1,233	97	99
SETTLEMENT RISK	**–**	**–**	**–**	**–**
SECURITISATION EXPOSURES IN BANKING BOOK (AFTER THE CAP)	**1,095**	**1,200**	**88**	**96**
Of which IRB approach (RBA)	–	–	–	-
Of which IRB Supervisory Formula Approach (SFA)	–	–	–	-
Of which internal assessment approach (IAA)	–	–	–	-
Of which Standardised approach (SA)	1,095	1,200	88	96
MARKET RISK	**0**	**137**	**0**	**11**
Of which Standardised approach (SA)	0	137	0	11
Of which IMA	–	–	–	–
LARGE EXPOSURES	**–**	**–**	**–**	**–**
OPERATIONAL RISK	**951**	**752**	**76**	**60**
Of which basic indicator approach	–	–	–	–
Of which standardised approach (SA)	951	752	76	60
Of which advanced measurement approach	–	–	–	–
Amounts below the thresholds for deduction (subject to 250% risk weight)	–	–	–	–
FLOOR ADJUSTMENT	**–**	**–**	**–**	**–**
TOTAL	**11,641**	**11,715**	**932**	**937**

	31/12/2016	30/09/2016	31/12/2016	30/09/2016
	RWA		MINIMUM CAPITAL REQUIREMENT	
CREDIT RISK (EXCLUDING CCR)	**8,707**	**9,069**	**697**	**726**
Of which standardised approach (SA)	8,707	9,069	697	726
Of which the foundation IRB (FIRB)	–	–	–	–
Of which the advanced IRB (AIRB)	–	–	–	–
Of which Equity IRB under the simple risk-weighted approach or the IMA	–	–	–	–
COUNTERPARTY CREDIT RISK	**1,452**	**1,455**	**116**	**116**
Of which mark-to-market	–	–	–	–
Of which original exposure	–	–	–	–
Of which the standardised approach	1	0	0	0
Of which internal model method (IMM)	–	–	–	–
Of which risk exposure amount for contributions to the default fund of a CCP	–	–	–	–
Of which CVA	1,451	1,455	116	116
SETTLEMENT RISK	**–**	**–**	**–**	**–**
SECURITISATION EXPOSURES IN BANKING BOOK (AFTER THE CAP)	**1,303**	**1,201**	**104**	**96**
Of which IRB approach (RBA)	-	-	-	-
Of which IRB Supervisory Formula Approach (SFA)	-	-	-	-
Of which internal assessment approach (IAA)	-	-	-	-
Of which Standardised approach (SA)	1,303	1,201	104	96
MARKET RISK	**113**	**0**	**9**	**0**
Of which Standardised approach (SA)	113	0	9	0
Of which IMA	–	–	–	–
LARGE EXPOSURES	**–**	**–**	**–**	**–**
OPERATIONAL RISK	**752**	**764**	**60**	**61**
Of which basic indicator approach	–	–	–	–
Of which standardised approach (SA)	752	764	60	61
Of which advanced measurement approach	–	–	–	–
Amounts below the thresholds for deduction (subject to 250% risk weight)	–	–	–	–
FLOOR ADJUSTMENT	**–**	**–**	**–**	**–**
TOTAL	**12,327**	**12,489**	**986**	**999**

Credit risk and credit risk mitigation (article 442 CCR and 453 CCR)

In the application of article 442 and 453 CRR templates and tables in this section provide further quantitative insight into the credit risk profile of BNG Bank. This first starts with some different perspectives on the overall portfolio of BNG Bank before concentrating on the non-performing and forborne exposures, the credit risk mitigation measures that are applied and the effects on the RWA that should be considered for capitalization purposes. However, first some more context is provided on the definitions applied with respect to the credit quality of assets.

Credit quality assets (EU CRB-A)

FORBORN EXPOSURES

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

NON-PERFORMING AND IMPAIRED EXPOSURES

Non-performing exposures are exposures:

- whose contractual conditions have been breached by the debtor and/or payment arrears ('past due') exceeding 90 days ('default'); and/or
- in respect of which the debtor is not expected to be able to continue fulfilling its future payment obligations (in full) ('unlikely to pay'); and/or
- that are individually impaired.

The term 'past due' refers to the payment arrears commencing at the moment when the debtor has not paid (in full) by the date on which payment was due under the contract.

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

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

Impaired exposures are exposures that are individually impaired. The term 'impairment' refers to write-offs on the items carried at fair value on the balance sheet, and loans for which an individual provision was made. Exposures included under the IBNI provision are not classified as impaired exposures. Likewise, off-balance sheet exposures are not classified as impaired either.

LOANS AND ADVANCES PROVISIONING POLICY

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

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

The individual facility only relates to loans and advances subject to solvency requirements. Loans and advances that are not subject to solvency requirements are deemed to be free of credit risk on account of guarantees, collateral or by virtue of the status of the counterparty, such as the Dutch local authorities. Furthermore, the bank has a collective provision based on a so-called Incurred But Not Identified (IBNI) model. For loans and advances and off-balance exposures subject to solvency requirements, this model calculates a provision based on factors such as exposure and the debtor's rating. Lastly, for loans and advances that are solvency-free due to a local authority guarantee, the model calculates a provision on the basis of a premium for operational risk. Both provisions fall under the regulatory specific credit risk adjustment.

Total and average net amount of exposures (EU CRB-B)

	31/12/2017		31/12/2016	
	NET VALUE OF EXPOSURES AT THE END OF THE PERIOD	AVERAGE NET EXPOSURE OF THE PERIOD	NET VALUE OF EXPOSURES AT THE END OF THE PERIOD	AVERAGE NET EXPOSURE OF THE PERIOD
Central governments or central banks	10,125	20,386	14,946	15,843
Regional governments or local authorities	36,495	36,742	37,404	37,813
Public sector entities	2,808	2,963	3,114	3,116
Multilateral Development Banks	733	862	877	852
International Organisations	730	968	1,217	1,218
Institutions	492	10,020	12,135	15,770
Corporates	61,426	61,859	61,981	62,175
– Of which: 0% risk weighted	51,163	51,442	51,740	51,950
Secured by mortgages on immovable property	172	183	199	210
Exposures in default	17	86	112	156
Covered bonds	1,278	1,471	1,819	1,920
Claims with a short-term credit assessment	–	–	–	–
Collective investments undertakings (CIU)	30	30	25	40
Equity	47	45	46	47
Securitisation positions	3,539	3,587	3,750	3,219
Other items	11,969	12,422	14,960	17,763
TOTAL CREDIT RISK EXPOSURE (SA)	**129,861**	**151,624**	**152,585**	**160,142**
– Of which: Small & Medium Enterprises (SMEs)	14,318	14,512	14,670	14,786

The exposure value to institutions at year-end 2017 is significantly different compared to year-end 2016. This is due to changes in the calculation of the original exposure amount related to derivatives and collateral. For the determination of the replacement cost both collateral posted and received that would be netted under an eligible netting agreement is taken into account in the original exposure amount. Whereas, prior year-end 2017, for determining the original exposure amount only derivatives transactions were considered and collateral posted and received was reported as a financial collateral deduction.

Geographical breakdown of exposures (EU CRB-C)

	31/12/2017				
	NETHER-LANDS	OTHER EURO COUNTRIES	REST OF EUROPE	REST OF THE WORLD	TOTAL EXPOSURE VALUE
Central governments or central banks	5,140	4,964	–	21	10,125
Regional governments or local authorities	36,043	452	–	–	36,495
Public sector entities	2,122	595	91	–	2,808
Multilateral Development Banks	–	733	–	–	733
International Organisations	–	730	–	–	730
Institutions	12	480	–	–	492
Corporates	58,964	784	1,678	–	61,426
– Of which: 0% risk weighted	50,335	179	649	–	51,163
Secured by mortgages on immovable property	172	–	–	–	172
Exposures in default	17	–	–	–	17
Covered bonds	578	169	531	–	1,278
Claims with a short-term credit assessment	–	–	–	–	–
Collective investments undertakings (CIU)	–	30	–	–	30
Equity	47	–	–	–	47
Securitisation positions	2,846	652	41	–	3,539
Other items	11,936	33	–	–	11,969
TOTAL CREDIT RISK EXPOSURE (SA)	**117,877**	**9,622**	**2,341**	**21**	**129,861**

	31/12/2016				
	NETHER-LANDS	OTHER EURO COUNTRIES	REST OF EUROPE	REST OF THE WORLD	TOTAL EXPOSURE VALUE
Central governments or central banks	9,926	4,903	117	–	14,946
Regional governments or local authorities	36,760	644	–	–	37,404
Public sector entities	2,175	939	–	–	3,114
Multilateral Development Banks	–	877	–	–	877
International Organisations	–	1,217	–	–	1,217
Institutions	1,513	2,679	5,993	1,950	12,135
Corporates	59,314	944	1,723	–	61,981
– Of which: 0% risk weighted	50,849	229	662	–	51,740
Secured by mortgages on immovable property	199	–	–	–	199
Exposures in default	112	–	–	–	112
Covered bonds	648	838	333	–	1,819
Claims with a short-term credit assessment	–	–	–	–	0
Collective investments undertakings (CIU)	–	25	–	–	25
Equity	46	–	–	–	46
Securitisation positions	2,975	727	48	–	3,750
Other items	14,959	1	–	–	14,960
TOTAL CREDIT RISK EXPOSURE (SA)	**128,627**	**13,794**	**8,214**	**1,950**	**152,585**

Concentration of exposures by industry or counterparty types (EU CRB-D)

	31/12/2017						
	GENERAL GOVERN-MENTS	CREDIT INSTITU-TIONS	OTHER FINANCIAL CORPO-RATIONS	NON-FINANCIAL CORPO-RATIONS	HOUSE-HOLDS	OTHER	TOTAL EXPOSURE VALUE
Central governments or central banks	10,125	–	–	–	–	–	10,125
Regional governments or local authorities	36,495	–	–	–	–	–	36,495
Public sector entities	2,808	–	–	–	–	–	2,808
Multilateral Development Banks	–	733	–	–	–	–	733
International Organisations	730	–	–	–	–	–	730
Institutions	–	489	3	–	–	–	492
Corporates	–	–	2,287	55,332	3,807	–	61,426
– Of which: 0% risk weighted	–	–	1,168	47,221	2,774	–	51,163
Secured by mortgages on immovable property	–	–	–	–	172	–	172
Exposures in default	–	–	–	17	–	–	17
Covered bonds	–	1,202	76	–	–	–	1,278
Claims with a short-term credit assessment	–	–	–	–	–	–	0
Collective investments undertakings (CIU)	–	–	30	–	–	–	30
Equity	–	–	–	47	–	–	47
Securitisation positions	–	–	3,539	–	–	–	3,539
Other items	–	–	–	–	–	11,969	11,969
TOTAL CREDIT RISK EXPOSURE (SA)	**50,158**	**2,424**	**5,935**	**55,396**	**3,979**	**11,969**	**129,861**

							31/12/2016
	GENERAL GOVERN-MENTS	CREDIT INSTITU-TIONS	OTHER FINANCIAL CORPO-RATIONS	NON-FINANCIAL CORPO-RATIONS	HOUSE-HOLDS	OTHER	TOTAL EXPOSURE VALUE
Central governments or central banks	14,946	–	–	–	–	–	14,946
Regional governments or local authorities	37,404	–	–	–	–	–	37,404
Public sector entities	3,114	–	–	–	–	–	3,114
Multilateral Development Banks	–	877	–	–	–	–	877
International Organisations	1,217	–	–	–	–	–	1,217
Institutions	–	12,131	4	–	–	–	12,135
Corporates	–	–	2,108	56,015	3,858	–	61,981
– Of which: 0% risk weighted	–	–	1,208	47,771	2,761	–	51,740
Secured by mortgages on immovable property	–	–	–	–	199	–	199
Exposures in default	–	–	–	112	–	–	112
Covered bonds	–	1,212	607	–	–	–	1,819
Claims with a short-term credit assessment	–	–	–	–	–	–	0
Collective investments undertakings (CIU)	–	–	25	–	–	–	25
Equity	–	–	–	46	–	–	46
Securitisation positions	–	–	3,750	–	–	–	3,750
Other items	–	–	–	–	–	14,960	14,960
TOTAL CREDIT RISK EXPOSURE (SA)	**56,681**	**14,220**	**6,494**	**56,173**	**4,057**	**14,960**	**152,585**

Maturity of exposures (EU CRB-E)

	31/12/2017					
	NET EXPOSURE VALUE					
	ON DEMAND	≤ 1 YEAR	> 1 YEAR ≤ 5 YEARS	> 5 YEARS	NO STATED MATURITY	TOTAL
Central governments or central banks	2,996	–	1,167	5,962	–	10,125
Regional governments or local authorities	714	3,583	6,049	20,807	–	31,153
Public sector entities	32	37	627	1,435	–	2,131
Multilateral Development Banks	–	–	256	477	–	733
International Organisations	–	46	218	466	–	730
Institutions	–	98	238	156	–	492
Corporates	527	2,884	8,531	42,997	–	54,939
– Of which: 0% risk weighted	195	2,118	7,155	38,508	–	47,976
Secured by mortgages on immovable property	–	–	–	172	–	172
Exposures in default	10	1	–	2	–	13
Covered bonds	–	123	652	503	–	1,278
Claims with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings (CIU)	–	–	–	30	–	30
Equity	–	47	–	–	–	47
Securitisation positions	–	–	–	3,306	–	3,306
Other items	–	253	2,003	9,713	–	11,969
TOTAL CREDIT RISK EXPOSURE (SA)	**4,279**	**7,072**	**19,741**	**86,026**	**–**	**117,118**

						31/12/2016
	NET EXPOSURE VALUE					
	ON DEMAND	≤ 1 YEAR	> 1 YEAR ≤ 5 YEARS	> 5 YEARS	NO STATED MATURITY	TOTAL
Central governments or central banks	6,417	116	1,271	6,142	–	13,946
Regional governments or local authorities	678	3,930	5,602	21,408	–	31,618
Public sector entities	24	26	818	1,602	–	2,470
Multilateral Development Banks	–	36	458	369	–	863
International Organisations	–	110	796	311	–	1,217
Institutions	–	11,695	231	209	–	12,135
Corporates	481	2,912	8,564	43,732	–	55,689
– Of which: 0% risk weighted	138	2,228	7,262	39,266	–	48,894
Secured by mortgages on immovable property	–	–	–	199	–	199
Exposures in default	21	6	–	77	–	104
Covered bonds	–	177	857	785	–	1,819
Claims with a short-term credit assessment	–	–	–	–	–	0
Collective investments undertakings (CIU)	–	–	–	25	–	25
Equity	–	46	–	–	–	46
Securitisation positions	–	–	–	3,488	–	3,488
Other items	–	289	2,176	12,495	–	14,960
TOTAL CREDIT RISK EXPOSURE (SA)	**7,621**	**19,343**	**20,773**	**90,842**	**–**	**138,579**

The exposure values in this table is exclusive of off-balance exposure in contrast to the other tables. The total credit exposure is therefore lower than in the other tables.

Credit quality of exposures by exposure classes and instruments (EU CR1-A)

	31/12/2017						
	GROSS CARRYING VALUES OF: DEFAULTED EXPOSURES	GROSS CARRYING VALUES OF: NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	ACCUMU-LATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	NET VALUES
Central governments or central banks	–	10,125	–	–	–	–	10,125
Regional governments or local authorities	–	36,495	–	–	–	–	36,495
Public sector entities	–	2,808	–	–	–	–	2,808
Multilateral Development Banks	–	733	–	–	–	–	733
International Organisations	–	730	–	–	–	–	730
Institutions	–	492	–	–	–	–	492
Corporates	37	61,440	34	–	–	−8	61,443
– Of which: 0% risk weighted	–	51,163	–	–	–	–	51,163
– Of which: SMEs	10	14,314	6	–	–	–	14,318
Secured by mortgages on immovable property	–	172	–	–	–	–	172
Exposures in default	37	–	20	–	–	−3	17
Covered bonds	–	1,278	–	–	–	–	1,278
Claims with a short-term credit assessment	–	–	–	–	–	–	–
Collective investments undertakings (CIU)	–	30	–	–	–	–	30
Equity	–	47	–	–	–	–	47
Securitisation positions	–	3,539	–	–	–	–	3,539
Other items	–	11,969	–	–	–	–	11,969
TOTAL CREDIT RISK EXPOSURE (SA)	**37**	**129,858**	**34**	**–**	**–**	**−8**	**129,861**
– Of which: Loans and advances	34	85,117	31	–	–	−8	85,120
– Of which: Debt securities	–	16,890	–	–	–	–	16,890
– Of which: Off-balance sheet exposures	3	12,789	3	–	–	–	12,789

	31/12/2016						
	GROSS CARRYING VALUES OF: DEFAULTED EXPOSURES	GROSS CARRYING VALUES OF: NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	ACCUMU-LATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	NET VALUES
Central governments or central banks	–	14,946	–	–	–	–	14,946
Regional governments or local authorities	–	37,404	–	–	–	–	37,404
Public sector entities	–	3,114	–	–	–	–	3,114
Multilateral Development Banks	–	877	–	–	–	–	877
International Organisations	–	1,217	–	–	–	–	1,217
Institutions	–	12,135	–	–	–	–	12,135
Corporates	138	61,997	42	–	–	–7	62,093
– Of which: 0% risk weighted	–	51,740	–	–	–	–	51,740
– Of which: SMEs	92	14,582	4	–	–	–	14,670
Secured by mortgages on immovable property	–	199	–	–	–	–	199
Exposures in default	137	–	25	–	–	–7	112
Covered bonds	–	1,819	–	–	–	–	1,819
Claims with a short-term credit assessment	–	–	–	–	–	–	–
Collective investments undertakings (CIU)	–	25	–	–	–	–	25
Equity	–	46	–	–	–	–	46
Securitisation positions	–	3,750	–	–	–	–	3,750
Other items	–	14,960	–	–	–	–	14,960
TOTAL CREDIT RISK EXPOSURE (SA)	**138**	**152,489**	**42**	**–**	**–**	**–7**	**152,585**
– Of which: Loans and advances	130	98,334	–42	–	–	–7	98,505
– Of which: Debt securities	–	18,586	–	–	–	–	18,586
– Of which: Off-balance sheet exposures	8	14,013	–	–	–	–	14,021

Credit quality of exposures by industry or counterparty types (EU CR1-B)

	31/12/2017						
	GROSS CARRYING VALUES OF: DEFAULTED EXPOSURES	GROSS CARRYING VALUES OF: NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	ACCUMU-LATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	NET VALUES
General governments	–	50,158	–	–	–	–	50,158
Credit institutions	–	2,424	–	–	–	–	2,424
Other financial corporations	–	5,936	1	–	–	−3	5,935
Non-financial corporations	32	55,390	26	–	–	−4	55,396
Households	5	3,981	7	–	–	−1	3,979
Other	–	11,969	–	–	–	–	11,969
TOTAL	**37**	**129,858**	**34**	**–**	**–**	**−8**	**129,861**

	31/12/2016						
	GROSS CARRYING VALUES OF: DEFAULTED EXPOSURES	GROSS CARRYING VALUES OF: NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	ACCUMU-LATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	NET VALUES
General governments	–	56,681	–	–	–	–	56,681
Credit institutions	–	14,220	–	–	–	–	14,220
Other financial corporations	13	6,485	4	–	–	−7	6,494
Non-financial corporations	120	56,083	30	–	–	–	56,173
Households	5	4,060	8	–	–	–	4,057
Other	–	14,960	–	–	–	–	14,960
TOTAL	**138**	**152,489**	**42**	**–**	**–**	**−7**	**152,585**

Credit quality of exposures by geography (EU CR1-C)

	31/12/2017						
	GROSS CARRYING VALUES OF: DEFAULTED EXPOSURES	GROSS CARRYING VALUES OF: NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	ACCUMU-LATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	NET VALUES
Netherlands	37	117,873	33	–	–	–8	117,877
Other Euro countries	–	9,623	1	–	–	–	9,622
Rest of Europe	–	2,341	–	–	–	–	2,341
Rest of the world	–	21	–	–	–	–	21
TOTAL	**37**	**129,858**	**34**	**–**	**–**	**–8**	**129,861**

	31/12/2016						
	GROSS CARRYING VALUES OF: DEFAULTED EXPOSURES	GROSS CARRYING VALUES OF: NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	ACCUMU-LATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	NET VALUES
Netherlands	138	128,530	41	–	–	3	128,627
Other Euro countries	–	13,795	1	–	–	–10	13,794
Rest of Europe	–	8,214	–	–	–	–	8,214
Rest of the world	–	1,950	–	–	–	–	1,950
TOTAL	**138**	**152,489**	**42**	**–**	**–**	**–7**	**152,585**

Ageing of past-due exposures (EU CR1-D)

	31/12/2017					
	GROSS CARRYING VALUES					
	≤ 30 DAYS	> 30 DAYS ≤ 60 DAYS	> 60 DAYS ≤ 90 DAYS	> 90 DAYS ≤ 180 DAYS	> 180 DAYS ≤ 1 YEAR	> 1 YEAR
Debt securities	–	–	–	–	–	–
Loans and advances	1	–	–	–	2	8
Off-balance sheet exposures	–	–	–	–	–	–
TOTAL	**1**	**–**	**–**	**–**	**2**	**8**

	31/12/2016					
	GROSS CARRYING VALUES					
	≤ 30 DAYS	> 30 DAYS ≤ 60 DAYS	> 60 DAYS ≤ 90 DAYS	> 90 DAYS ≤ 180 DAYS	> 180 DAYS ≤ 1 YEAR	> 1 YEAR
Debt securities	–	–	–	–	–	–
Loans and advances	–	–	–	–	1	9
Off-balance sheet exposures	–	–	–	–	–	–
TOTAL	**–**	**–**	**–**	**–**	**1**	**9**

At 31 december 2017 EUR 3 million of the EUR 10 million past due exposures more than 90 days is not impaired. This is due to the expectation that this amount will be received in full.

Non-performing and forborne exposures (EU CR1-E)

	31/12/2017						
	GROSS CARRYING VALUES OF PERFORMING AND NON-PERFORMING EXPOSURES						
		OF WHICH PERFORMING BUT PAST DUE > 30 DAYS AND ≤ 90 DAYS	OF WHICH PERFORMING FORBORNE	OF WHICH NON-PERFORMING	OF WHICH DEFAULTED	OF WHICH IMPAIRED	OF WHICH FORBORNE
Debt securities	17,119	–	–	14	14	14	–
Loans and advances	102,330	–	235	38	38	29	6
Off-balance sheet exposures	12,782	–	–	–	–	–	–
TOTAL	**132,231**	**–**	**235**	**52**	**52**	**43**	**6**

	31/12/2017					
	ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
	ON PERFORMING EXPOSURES	ON PERFORMING EXPOSURES OF WHICH FORBORN	ON-NON PERFORMING EXPOSURES	ON-NON PERFORMING EXPOSURES OF WHICH FORBORN	ON-NON PERFORMING EXPOSURES	OF WHICH FORBORN EXPOSURES
Debt securities	–259	–	–	–	–	–
Loans and advances	–72	–1	–20	–	–	–
Off-balance sheet exposures	–	–	–	–	–	–
TOTAL	**–331**	**–1**	**–20**	**–**	**–**	**–**

	31/12/2016						
	GROSS CARRYING VALUES OF PERFORMING AND NON-PERFORMING EXPOSURES						
		OF WHICH PERFORMING BUT PAST DUE > 30 DAYS AND ≤ 90 DAYS	OF WHICH PERFORMING FORBORNE	OF WHICH NON-PERFORMING	OF WHICH DEFAULTED	OF WHICH IMPAIRED	OF WHICH FORBORNE
Debt securities	18,876	–	–	16	16	16	–
Loans and advances	105,072	–	177	130	130	129	13
Off-balance sheet exposures	14,006	–	–	8	8	–	–
TOTAL	**137,954**	**–**	**177**	**154**	**154**	**145**	**13**

	31/12/2016					
	ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
	ON PERFORMING EXPOSURES	ON PERFORMING EXPOSURES OF WHICH FORBORN	ON-NON PERFORMING EXPOSURES	ON-NON PERFORMING EXPOSURES OF WHICH FORBORN	ON-NON PERFORMING EXPOSURES	OF WHICH FORBORN EXPOSURES
Debt securities	–311	–	–	–	–	–
Loans and advances	–87	–1	–25	–2	–	22
Off-balance sheet exposures	–	–	–	–	–	7
TOTAL	**–398**	**–1**	**–25**	**–2**	**–**	**29**

Changes in stock of general and specific credit risk adjustments (EU CR2-A)

	ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT
OPENING BALANCE 31-12-2015	**49**
Increases due to amounts set aside for estimated loan losses during the period	4
Decreases due to amounts reversed for estimated loan losses during the period	−7
Decreases due to amounts taken against accumulated credit risk adjustments	−4
Transfers between credit risk adjustments	–
Impact of exchange rate differences	–
Business combinations, including acquisitions and disposals of subsidiaries	–
Other adjustments	–
CLOSING BALANCE 31/12/2016	**42**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–
Specific credit risk adjustments directly recorded to the statement of profit or loss	–
OPENING BALANCE 31/12/2016	**42**
Increases due to amounts set aside for estimated loan losses during the period	3
Decreases due to amounts reversed for estimated loan losses during the period	−7
Decreases due to amounts taken against accumulated credit risk adjustments	−4
Transfers between credit risk adjustments	–
Impact of exchange rate differences	–
Business combinations, including acquisitions and disposals of subsidiaries	–
Other adjustments	–
CLOSING BALANCE 31/12/2017	**34**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	3
Specific credit risk adjustments directly recorded to the statement of profit or loss	–

The EUR 34 million (2016: EUR 42 million) incurred loss provision comprises EUR 20 million (2016: EUR 26 million) of individual provisions and EUR 14 million (2016: EUR 16 million) of a collective provision (IBNI).

Changes in stock of defaulted and impaired loans and debt securities (EU CR2-B)

	GROSS CARRYING VALUE DEFAULTED EXPOSURES
CLOSING BALANCE 31-12-2015	**212**
Loans and debt securities that have defaulted or impaired since the last reporting date	99
Returned to non-defaulted status	−58
Amounts written off	–
Other changes	−116
CLOSING BALANCE 31/12/2016	**138**
Loans and debt securities that have defaulted or impaired since the last reporting date	11
Returned to non-defaulted status	−104
Amounts written off	–
Other changes	−8
CLOSING BALANCE 31/12/2017	**37**

The strong decrease in non-performing exposure is largely attributable to the fact that one of the bank's clients – which had a non-performing exposure of EUR 91 million at the end of 2016 – became performing in 2017, following the restructuring and partial redemption of his loan portfolio.

Furthermore, it should be noted that the closing balance reported in template EU CR2-B is different from the reported defaulted exposure in template CR1-E. This can be attributed to different definitions that are applied. A securitisation exposure which is recognized as a non-performing in CR1-E is not recognized in the stock of defaulted loans and debt securities because this exposure qualifies for a 1250% risk weighting. BNG Bank uses the option to offset these items against the CET1 capital and does therefore not include in table EU-CR2-B.

Credit risk mitigation techniques – overview (EU CR3)

					31/12/2017
	EXPOSURES UNSECURED – CARRYING AMOUNT	EXPOSURES TO BE SECURED	EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES
Total loans and advances	85,116	47,774	66	47,708	–
Total debt securities	13,555	1,413	–	1,413	–
Total securitisation	3,539	–	–	–	–
Total off balance sheet exposure	12,516	3,239	5	3,234	–
Total other exposure	15,135	10	–	10	–
TOTAL EXPOSURES	**129,861**	**52,436**	**71**	**52,365**	**–**
Of which defaulted	17	–	–	–	–

					31/12/2016
	EXPOSURES UNSECURED – CARRYING AMOUNT	EXPOSURES TO BE SECURED	EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES
Total loans and advances	98,328	60,117	11,581	48,536	–
Total debt securities	15,079	1,915	–	1,915	–
Total securitisation	3,750	–	–	–	–
Total off balance sheet exposure	13,750	3,013	54	2,959	–
Total other exposure	21,678	–	–	–	–
TOTAL EXPOSURES	**152,585**	**65,045**	**11,635**	**53,410**	**–**
Of which defaulted	112	–	–	–	–

Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects (EU CR4)

Guarantees provided by governments, WSW and WfZ are an important part in the determination of the credit risk profile of BNG Bank. Below tables show the effect of all CRM techniques. RWA density provides a synthetic metric on the portfolio that remains after the application of CRM techiniques.

						31/12/2017
	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Central governments or central banks	10,125	1	54,372	393	–	0%
Regional governments or local authorities	31,153	5,342	35,516	538	101	0%
Public sector entities	2,131	676	2,045	16	274	13%
Multilateral Development Banks	733	–	733	–	–	0%
International Organisations	730	–	730	–	–	0%
Institutions	492	–	29	–	11	38%
Corporates	54,939	6,488	6,939	234	6,375	89%
Secured by mortgages on immovable property	172	–	45	–	45	100%
Exposures in default	13	3	13	–	14	108%
Covered bonds	1,278	–	1,278	–	135	11%
Claims with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings (CIU)	30	–	30	–	30	100%
Equity	47	–	47	–	47	100%
Securitisation positions	3,306	233	3,281	116	1,095	32%
Other items	11,969	–	11,969	–	25	0%
TOTAL	**117,118**	**12,743**	**117,027**	**1,297**	**8,152**	**7%**

						31/12/2016
	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Central governments or central banks	13,946	1,000	59,455	321	–	0%
Regional governments or local authorities	31,618	5,786	36,083	667	106	0%
Public sector entities	2,470	644	2,185	–	287	13%
Multilateral Development Banks	863	14	863	3	–	0%
International Organisations	1,217	–	1,217	–	–	0%
Institutions	12,135	–	84	–	11	13%
Corporates	55,689	6,292	6,613	300	6,146	89%
Secured by mortgages on immovable property	199	–	57	–	57	100%
Exposures in default	104	8	104	–	104	100%
Covered bonds	1,819	–	1,819	–	244	13%
Claims with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings (CIU)	25	–	25	–	25	100%
Equity	46	–	46	–	46	100%
Securitisation positions	3,488	262	3,459	131	1,303	36%
Other items	14,960	–	14,960	–	60	0%
TOTAL	**138,579**	**14,006**	**126,970**	**1,422**	**8,389**	**7%**

Standardised approach before risk mitigation (EU CR5)

	31/12/2017										
	0%	2%	10%	20%	35%	50%	100%	› 100%	DEDUCTED	TOTAL EXPOSURE VALUE	OF WHICH UNRATED
Central governments or central banks	54,765	–	–	–	–	–	–	–	–	**54,765**	54,765
Regional governments or local authorities	35,777	–	–	219	–	–	58	–	–	**36,054**	36,043
Public sector entities	689	–	–	1,372	–	–	–	–	–	**2,061**	1,970
Multilateral Development Banks	733	–	–	–	–	–	–	–	–	**733**	733
International Organisations	730	–	–	–	–	–	–	–	–	**730**	730
Institutions	–	–	–	12	–	17	–	–	–	**29**	20
Corporates	–	–	–	666	–	539	5,958	10	–	**7,173**	6,022
Secured by mortgages on immovable property	–	–	–	–	–	–	45	–	–	**45**	45
Exposures in default	–	–	–	–	–	–	13	1	–	**14**	–
Covered bonds	–	–	1,208	71	–	–	–	–	–	**1,279**	–
Claims with a short-term credit assessment	–	–	–	–	–	–	–	–	–	**–**	–
Collective investments undertakings (CIU)	–	–	–	–	–	–	30	–	–	**30**	30
Equity	–	–	–	–	–	–	47	–	–	**47**	47
Securitisation positions	43	–	–	2,389	74	736	129	26	25	**3,422**	80
Other items	11,944	–	–	–	–	–	25	–	–	**11,969**	11,969
TOTAL CREDIT RISK EXPOSURE	**104,681**	**–**	**1,208**	**4,729**	**74**	**1,292**	**6,305**	**37**	**25**	**118,351**	**112,454**

	31/12/2016										
	0%	2%	10%	20%	35%	50%	100%	> 100%	DEDUCTED	TOTAL EXPOSURE VALUE	OF WHICH UNRATED
Central governments or central banks	59,776	–	–	–	–	–	–	–	–	**59,776**	59,776
Regional governments or local authorities	36,439	–	–	255	–	–	55	–	–	**36,749**	36,725
Public sector entities	748	–	–	1,437	–	–	–	–	–	**2,185**	2,185
Multilateral Development Banks	866	–	–	–	–	–	–	–	–	**866**	866
International Organisations	1,217	–	–	–	–	–	–	–	–	**1,217**	1,217
Institutions	51	3	–	14	–	17	–	–	–	**85**	71
Corporates	–	–	–	581	–	605	5,728	–	–	**6,914**	5,835
Secured by mortgages on immovable property	–	–	–	–	–	–	57	–	–	**57**	57
Exposures in default	–	–	–	–	–	–	104	–	–	**104**	–
Covered bonds	–	–	1,201	618	–	–	–	–	–	**1,819**	–
Claims with a short-term credit assessment	–	–	–	–	–	–	–	–	–	**–**	–
Collective investments undertakings (CIU)	–	–	–	–	–	–	25	–	–	**25**	25
Equity	–	–	–	–	–	–	46	–	–	**46**	46
Securitisation positions	32	–	–	2,555	99	599	243	62	29	**3,619**	112
Other items	14,894	–	–	–	–	–	66	–	–	**14,960**	14,960
TOTAL CREDIT RISK EXPOSURE	**114,023**	**3**	**1,201**	**5,460**	**99**	**1,221**	**6,324**	**62**	**29**	**128,422**	**121,875**

Counterparty credit risk (article 439 CRR)

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The exposure to counterparty credit risk pertains to exposures arising from derivatives, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions. This section provides different perspectives on this counterparty credit risk as it pertains to BNG Bank.

Analysis of the counterparty credit risk (CCR) exposure by approach (EU CCR1)

The credit risk of derivative transactions is relatively small, despite the fact that principal amounts totalled EUR 224 billion at year-end 2017 (2016: EUR 240 billion). With the exception of currency derivatives, these contractual principal amounts merely serve as accounting quantities and do not reflect the size of cash flows or the risk associated with the derivatives. The credit equivalent of the derivatives portfolio serves as a more accurate indicator in this regard. The credit risk is expressed in terms of credit equivalents, in accordance with central bank guidelines. The credit equivalent consists of the market value plus an add-on for future credit risk. Contracts with a positive value – where contractual default by the counterparty would cause the bank to miss out on revenue – are relevant in this regard.

BNG Bank determines this value using the Mark-to-Market (MtM) method. The current replacement cost is calculated by including collateral received or posted. In addition, the principal amounts are multiplied by percentages based on the specific product and its maturity period in order to determine the potential credit risk ('add-on'). The sum of these two values (credit equivalent) indicates the net exposure to credit risk.

31/12/2017	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EEPE	MULTIPLIER	EAD POST CRM	RWAS
Mark-to-market		1,061	1,528			2,589	1,316
Original exposure method	–					–	–
Standardised approach					–	–	–
IMM (for derivatives and SFT's)				–	–	–	–
Financial collateral simple method (for SFT's)						–	–
Financial collateral comprehensive method (for SFT's)						–	–
VaR for SFT's						–	–
TOTAL							**1,316**

31/12/2016	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EEPE	MULTIPLIER	EAD POST CRM	RWAS
Mark-to-market		2,822	1,896			3,167	1,612
Original exposure method	–					–	–
Standardised approach					–	–	–
IMM (for derivatives and SFT's)				–	–	–	–
Financial collateral simple method (for SFT's)						–	–
Financial collateral comprehensive method (for SFT's)						–	–
VaR for SFT's						–	–
TOTAL							**1,612**

Credit valuation adjustment (CVA) capital charge (EU CCR2)

	31/12/2017	
	EXPOSURE VALUE	RWAS
Total portfolios subject to the advanced method	–	–
(i) VaR component	–	–
(ii) SVaR component	–	–
All portfolios subject to the standardised method	1,523	1,210
Based on the original exposure method	–	–
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	**1,523**	**1,210**

	31/12/2016	
	EXPOSURE VALUE	RWAS
Total portfolios subject to the advanced method	–	–
(i) VaR component	–	–
(ii) SVaR component	–	–
All portfolios subject to the standardised method	1,875	1,451
Based on the original exposure method	–	–
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	**1,875**	**1,451**

Standardised approach – CCR exposures by regulatory portfolio and risk (EU CCR3)

31/12/2017	0%	2%	10%	20%	50%	70%	75%	100%	150%	OTHERS	TOTAL EXPOSURE VALUE	OF WHICH UNRATED
COUNTERPARTY CREDIT RISK												
Central governments or central banks	59	–	–	–	–	–	–	–	–	–	**59**	59
Regional governments or local authorities	201	–	–	–	–	–	–	–	–	–	**201**	201
Public Sector Entities	–	–	–	85	–	–	–	–	–	–	**85**	85
Institutions	–	562	–	598	925	–	–	–	–	–	**2,085**	180
Corporates	–	–	–	5	–	–	–	716	–	–	**721**	716
TOTAL	**260**	**562**	**–**	**688**	**925**	**–**	**–**	**716**	**–**	**–**	**3,151**	**1,241**

31/12/2016	0%	2%	10%	20%	50%	70%	75%	100%	150%	OTHERS	TOTAL EXPOSURE VALUE	OF WHICH UNRATED
COUNTERPARTY CREDIT RISK												
Central governments or central banks	88	–	–	–	–	–	–	–	–	–	**88**	88
Regional governments or local authorities	239	–	–	–	–	–	–	–	–	–	**239**	239
Public Sector Entities	–	–	–	107	–	–	–	–	–	–	**107**	107
Institutions	–	58	–	641	1,234	–	–	–	–	–	**1,933**	28
Corporates	–	–	–	7	–	–	–	846	–	–	**853**	848
TOTAL	**327**	**58**	**–**	**755**	**1,234**	**–**	**–**	**846**	**–**	**–**	**3,220**	**1,310**

Impact of netting and collateral held on exposure values (EU CCR5-A)

	31/12/2017				
	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
Derivatives	9,323	7,907	1,416	369	1,047
SFTs	–	–	–	–	–
Cross-product netting	–	–	–	–	–
TOTAL	**9,323**	**7,907**	**1,416**	**369**	**1,047**

	31/12/2016				
	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
Derivatives	15,559	12,690	2,869	1,776	1,093
SFTs	–	–	–	–	–
Cross-product netting	–	–	–	–	–
TOTAL	**15,559**	**12,690**	**2,869**	**1,776**	**1,093**

Composition of collateral for exposures to counterparty credit risk (EU CCR5-B)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SECURITIES FINANCE TRANSACTIONS	
	FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF COLLATERAL POSTED	FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF COLLATERAL POSTED
TOTAL 31/12/2017	369	14,326	-	-
TOTAL 31/12/2016	1,776	11,795	-	-

At year-end 2017, the collateral posted amounted to EUR 14.3 billion (2016: EUR 11.8 billion). The deterioration of BNG Bank's rating by three notches would increase this amount by EUR 10 million (2016: EUR 35 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in, higher collateral obligations.

Exposures to central counterparties (EU CCR8)

	31/12/2017	
	EAD POST CRM	RWAS
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	562	11
(i) OTC derivatives	562	11
(ii) Exchange traded derivatives	–	–
(iii) SFT's	–	–
(iv) Netting sets where cross-product netting has been approved	–	–
Segregated initial margin	–	–
Non-segregated initial margin	–	–
Prefunded default fund contributions	–	–
Alternative calculation of own funds requirements for exposures	–	–
TOTAL EXPOSURES TO QCCPS	**562**	**11**

	31/12/2016	
	EAD POST CRM	RWAS
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	58	11
(i) OTC derivatives	58	11
(ii) Exchange traded derivatives	–	–
(iii) SFT's	–	–
(iv) Netting sets where cross-product netting has been approved	–	–
Segregated initial margin	–	–
Non-segregated initial margin	–	–
Prefunded default fund contributions	–	–
Alternative calculation of own funds requirements for exposures	–	–
TOTAL EXPOSURES TO QCCPS	**58**	**11**

Unencumbered assets (article 443 CCR)

Encumbered and unencumbered financial assets

The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type.

	31/12/2017			
	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
ASSETS OF THE REPORTING INSTITUTION	**17,303**		**122,722**	
Equity instruments	–	–	–	–
Debt securities	3,000	3,000	13,859	13,887
Loans and advances	14,303		87,955	
Other assets	–		20,908	

	31/12/2016			
	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
ASSETS OF THE REPORTING INSTITUTION	**12,220**		**141,780**	
Equity instruments	–	–	25	25
Debt securities	254	254	18,310	18,333
Loans and advances	11,966		93,019	
Other assets	–		30,426	

Collateral received by an institution, by broad categories of product type

	31/12/2017	
	FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED	FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE
COLLATERAL RECEIVED BY THE REPORTING INSTITUTION	**–**	**2,680**
Equity instruments	–	–
Debt securities	–	2,311
Other collateral received	–	369
Own debt securities issued other than own covered bonds or ABSs	–	–

	31/12/2016	
	FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED	FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE
COLLATERAL RECEIVED BY THE REPORTING INSTITUTION	**–**	**1,776**
Equity instruments	–	–
Debt securities	–	–
Other collateral received	–	1,776
Own debt securities issued other than own covered bonds or ABSs	–	–

Carrying amount of encumbered assets/collateral received and associated liabilities

	31/12/2017	
	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
Carrying amount of selected financial liabilities	16,092	16,892

	31/12/2016	
	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
Carrying amount of selected financial liabilities	18,162	11,795

Narrative information on the importance of asset encumbrance for an institution

Encumbered assets are assets involving a pledge or claim and include loans deposited at the central bank, issued paper collateral for repurchase agreements and derivative contracts, re-issued paper collateral and collateralized buy-backs of BNG Bank issues. In times of funding and liquidity needs, encumbered financial assets are not freely disposable to be able to meet these needs in the short term.

Selected financial liabilities consist of derivative positions with a negative balance sheet value which are covered by paper collateral. Collateral received by BNG Bank comprises of debt securities issued by governments and financial corporations and is used for money market transactions. BNG Bank also pledged a portfolio of loans with the Central Bank for monetary purposes. Since most of the banks assets could serve as collateral, this may be further extended in the event of prolonged stress.

Market risk (article 445 CRR)

For the disclosure of market risk pursuant with policies and strategies, please refer to the chapter Risk management objectives and policies in the section ‘market risk’. Below table MR1 shows the components of own funds requirements under the standardised approach for market risk. Only temporary small foreign exchange positions for which it is not efficient to hedge the risks may result in a limited capital charge.

Market risk under the standardised approach (EU MR1)

	31/12/2017		31/12/2016	
	RWAS	CAPITAL REQUIREMENT	RWAS	CAPITAL REQUIREMENT
OUTRIGHT PRODUCTS				
Interest rate risk (general and specific)	–	–	–	–
Equity risk (general and specific)	–	–	–	–
Foreign exchange risk	–	–	113	9
Commodity risk	–	–	–	–
OPTIONS				
Simplified approach	–	–	–	–
Delta-plus method	–	–	–	–
Scenario approach	–	–	–	–
Securitisation (specific risk)	–	–	–	–
TOTAL	**–**	**–**	**113**	**9**

Remuneration (article 450 CRR)

STARTING POINTS

The remuneration policy is compatible with the legal and policy frameworks for institutions established in the Netherlands. In 2017, the following laws and regulations were instrumental in determining the remuneration policy:

- European and national financial supervision rules, including the Capital Requirements Regulation, the Financial Supervision Act, the Regulation on Sound Remuneration Policies, the Remuneration Policy (Financial Enterprises) Act and the Work and Security Act;
- the Dutch Corporate Governance Code;
- the Banking Code.

In addition to satisfying legal and regulatory requirements, the remuneration policy also complies with the central government's policy for state-owned enterprises.

REMUNERATION POLICY FOR THE EXECUTIVE BOARD

The current remuneration policy for Executive Board members was adopted by the General Meeting of Shareholders on 5 October 2016. This remuneration policy is applicable in its entirety to executives appointed after 1 January 2016. The existing employment contracts of executives appointed before that date are respected.

BNG Bank strives for terms of employment and a remuneration level for its Executive Board that are in line with the market. 'In line with the market' means determined through comparison with what is considered normal in the sector of the Dutch labour market relevant to BNG Bank. In order to make this comparison, a reference group was defined in consultation with the shareholders. The reference group is comprised of both public and private components. While the private group component takes the WNT standard as its reference, the public component was compiled in consultation between the BNG Bank Supervisory Board and shareholders. This public component has a weighting of 60% and the private component a weighting of 40%. The median in the reference group serves as the starting point for market conformity. Independent external advice is used to assist in comparing remuneration. In principle, the Supervisory Board reviews every four years whether developments in the reference group warrant modification of the Executive Board terms of employment.

The total remuneration of the Chair in 2016 will not exceed EUR 301,000. This upper limit for the remuneration is increased annually (from 2017 onwards) with the general increases in the Collective Labour Agreement for the Banking Industry. The primary remuneration for Executive Board members consists of 12 times the monthly salary plus holiday allowance.

The employment contracts with the Executive Board members stipulate which provisions from the Collective Labour Agreement for the Banking Industry are applicable.

In addition, the provisions of the pension regulations of Stichting Pensioenfonds ABP (average salary system with personal contribution) apply to the Executive Board members. The retirement age is linked to the State Pension age. No compensation is provided to Executive Board members if the retirement age (statutory/for tax purposes) is raised further.

The employment contracts with Executive Board members specify appointment for a four-year period, with the term of the employment contract matching the period of appointment. This provision does not apply to individuals who are proposed for appointment from within BNG Bank and who already have a permanent contract.

No other severance payments than those provided for by the Dutch Work and Security Act (Wet werk en zekerheid) are agreed with Executive Board members. The severance pay will consequently never exceed the amount of the transition payment.

Deviation from the upper limit for remuneration and the other employment terms and conditions is only possible with the approval of the shareholders, with due regard for the provisions in Article 8, paragraph 4 of the Articles of Association of BNG Bank.

REMUNERATION POLICY FOR EMPLOYEES

With effect from 1 January 2017, the primary remuneration of BNG Bank employees consists of the following components, depending on their position.

	FIXED	VARIABLE	
		PERFORMANCE-RELATED REMUNERATION	PROFIT DISTRIBUTION
Managing directors	Yes	No	No
Department heads	Yes	No	Yes
Other employees	Yes	No	Yes

The fixed component of the remuneration consists of 12 times the monthly salary plus 8% holiday allowance and, where applicable, compensation for a 40-hour working week. Employees, with the exception of managing directors and department heads, receive a 13th-month payment. Increases under the Collective Labour Agreement for the Banking Industry and one-off benefits apply.

Performance-related remuneration was abolished for 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.

All the managing directors/department heads and some specific job holders are designated as Identified Staff. Their variable remuneration by way of profit distribution is subject to a stringent control regime (in this case, the conditional grant of 40% of this remuneration) where it amounts to more than one month's salary and/or more than EUR 10,000. Employees do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

The provisions of the pension regulations of Stichting Pensioenfonds ABP (average salary system) apply to the fixed remuneration and the profit distribution granted to employees. This fixed remuneration paid is pensionable up to the maximum amount permitted for tax purposes.

The total remuneration granted to 'Identified Staff', i.e. individuals with direct influence on the bank's policy and risks, was EUR 6 million in 2017 (2016: EUR 5 million). The Identified Staff consisted of 31 individuals in 2017 (2016: 30). No employee received remuneration exceeding EUR 1 million in 2017 (2016: none).

REMUNERATION POLICY FOR THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was unanimously approved by the Extraordinary General Meeting of Shareholders in 2016, effective from 1 January 2017. The new policy applies to the period from 1 January 2017 to 31 December 2021, inclusive. This policy is published on bngbank.nl.

The remuneration of the Supervisory Board can rise by the same percentage as the increases under the Collective Labour Agreement from 2017. With effect from 1 January 2017, the Supervisory Board's committee structure changed. The Market Strategy Committee was dissolved and the Audit & Risk Committee was divided into an Audit Committee and a Risk Committee. The remuneration policy has been amended accordingly. The remuneration policy for the Supervisory Board is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the social nature of the bank, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, and the time required as well as 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.

The remuneration amounts to EUR 24,300 a year for Supervisory Board members and EUR 35,300 a year for the Chair. Audit Committee and Risk Committee members receive an annual allowance of EUR 6,000 in addition to their remuneration. Members of the Selection and Appointment Committee as well as the Remuneration Committee receive an annual allowance of EUR 1,500 in addition to their remuneration.

Supervisory Board members additionally receive a fixed expense allowance of EUR 1,000 a year. This allowance is increased by EUR 500 for members of the Audit Committee and the Risk Committee, or by EUR 250 for members of the Selection and Appointment Committee/HR Committee as well as the Remuneration Committee.

More details on the remuneration policy, committee, system, criteria and amounts involved are provided in the Annual Report (pp. 73-78, 125-128) as well on the website (e.g. remuneration report).

Leverage ratio (article 451 CRR)

TABLE LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

		31/12/2017	
		TRANSITIONAL	FULLY PHASED IN
1	Total assets as per published financial statements	140,026	140,026
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 'CRR')	–	–
4	Adjustments for derivative financial instruments	−20,070	−20,070
5	Adjustments for securities financing transactions 'SFTs'	–	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,321	2,321
EU-6A	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	–	–
EU-6B	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	–	–
7	Other adjustments	−85	−33
8	**TOTAL LEVERAGE RATIO EXPOSURE**	**122,192**	**122,244**

TABLE LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

		31/12/2017	
		CRR LEVERAGE RATIO EXPOSURES	CRR LEVERAGE RATIO EXPOSURES
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	131,036	131,036
2	(Asset amounts deducted in determining Tier 1 capital)	−85	−33
3	**TOTAL ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND FIDUCIARY ASSETS) (SUM OF LINES 1 AND 2)**	**130,951**	**131,003**
	DERIVATIVE EXPOSURES		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1,076	1,076
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1,710	1,710
EU-5A	Exposure determined under Original Exposure Method	–	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	−13,866	−13,866
8	(Exempted CCP leg of client-cleared trade exposures)	–	–
9	Adjusted effective notional amount of written credit derivatives	–	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
11	**TOTAL DERIVATIVE EXPOSURES (SUM OF LINES 4 TO 10)**	**−11,080**	**−11,080**
	SECURITIES FINANCING TRANSACTION EXPOSURES		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
14	Counterparty credit risk exposure for SFT assets	–	–
EU-14A	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	–	–
15	Agent transaction exposures	–	–
EU-15A	(Exempted CCP leg of client-cleared SFT exposure)	–	–
16	**TOTAL SECURITIES FINANCING TRANSACTION EXPOSURES (SUM OF LINES 12 TO 15A)**	**–**	**–**

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		31/12/2017	
		CRR LEVERAGE RATIO EXPOSURES	CRR LEVERAGE RATIO EXPOSURES
	OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	12,789	12,789
18	(Adjustments for conversion to credit equivalent amounts)	−10,468	−10,468
19	**OTHER OFF-BALANCE SHEET EXPOSURES (SUM OF LINES 17 TO 18)**	**2,320**	**2,320**
	EXEMPTED EXPOSURES IN ACCORDANCE WITH CRR ARTICLE 429 (7) AND (14) (ON AND OFF BALANCE SHEET)		
EU-19A	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	–	–
EU-19B	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	–	–
	CAPITAL AND TOTAL EXPOSURES		
20	Tier 1 capital	4,266	4,318
21	**TOTAL LEVERAGE RATIO EXPOSURES (SUM OF LINES 3, 11, 16, 19, EU-19A AND EU-19B)**	**122,192**	**122,244**
	LEVERAGE RATIO		
22	Leverage ratio	3.49%	3.53%
	CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013		

TABLE LRSPL: SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		31/12/2017	
		CRR LEVERAGE RATIO EXPOSURES	CRR LEVERAGE RATIO EXPOSURES
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	131,036	131,036
EU-2	Trading book exposures	–	–
EU-3	Banking book exposures, of which:	131,036	131,036
EU-4	Covered bonds	1,278	1,278
EU-5	Exposures treated as sovereigns	43,374	43,374
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,499	1,499
EU-7	Institutions	14,359	14,359
EU-8	Secured by mortgages of immovable properties	172	172
EU-9	Retail exposures	–	–
EU-10	Corporate	54,950	54,950
EU-11	Exposures in default	33	33
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	15,371	15,371

TABLE LRQUA: FREE FORMAT TEXT BOXES FOR DISCLOSURE ON QUALITATIVE ITEMS

1	Description of the processes used to manage the risk of excessive leverage	Given the fact that a very large part of BNG Bank's balance sheet consists of 0% credit risk weighted assets, application of the leverage ratio is much less favourable than the more highly rated weighted solvency ratio. Thus far, a European minimum requirement for a leverage ratio of 3% seems most likely to become effective in the near future. For the time being BNG Bank assumed that it would need to comply with this 3% lower limit from 2018. Partly on account of the hybrid capital issue, the bank's leverage ratio at the end of 2016 already reached the required level of 3%. The bank had set itself the goal of achieving a leverage ratio at year-end 2017 of at least 3.4% (according to fully phased in calculations). The possible changes in this minimum requirement remain a point of attention. If the capital planning for the leverage ratio should necessitate a raise in the near future, the bank would expressly consider a further issue of hybrid capital or further reducing dividend pay-out. By taking these measures, the bank prevents threats to client lending due to constrictive leverage ratios.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The obligation to meet a leverage ratio in the future has meant among other things that, beginning in the 2011 financial year, the dividend was reduced from a payout percentage of 50% to 25%. This measure was still in place during 2016. In 2017 the proposed dividend payout ratio was raised to 37.5%. The possibility of attracting hybrid capital that qualifies as (additional) Tier 1 capital is also part of the migration plan. In 2015 EUR 424 million hybrid capital was attracted and an additional EUR 309 million was attracted in 2016.

Exposures in equities not included in the trading book (article 447 CCR)

The exposure comprises the shareholdings in BNG Bank's banking book. The tables below present the various values of the portfolio at year-end 2017 and 2016.

				31/12/2017
	BALANCE SHEET VALUE (EXPOSURE)	FAIR VALUE	CUMULATIVE UNREALISED RESULTS	RESULTS REALISED IN FINANCIAL YEAR
Financial assets available for sale	–	–	–	–
Associates and joint ventures				
Associates	3	3	–	1
Joint ventures	44	44	–	7
TOTAL	**47**	**47**	**–**	**8**

				31/12/2016
	BALANCE SHEET VALUE (EXPOSURE)	FAIR VALUE	CUMULATIVE UNREALISED RESULTS	RESULTS REALISED IN FINANCIAL YEAR
Financial assets available for sale	–	–	–	–
Associates and joint ventures				
Associates	3	3	–	1
Joint ventures	43	43	–	–7
TOTAL	**46**	**46**	**–**	**–6**

BNG Bank has no investments in listed shares. The shares in the Investments in associates and joint ventures balance sheet item concern investments in joint ventures entered into by BNG Gebiedsontwikkeling. The purpose of these partnerships is to develop and allocate land for the construction of homes and industrial estates, together with public authorities, at the bank's own expense and risk. The shares in associates and the shares in the Financial assets available-for-sale balance sheet item concern investments in private equity exposures in companies that are significant suppliers to the public sector.

The Investments in associates and joint ventures balance sheet item is stated according to the equity method. The Financial assets available-for-sale item is stated at fair value and value movements are recognised in equity, net of taxes. Further information can be found in the Annual Report under 'Accounting principles for the consolidated financial statements'.

Exposure to securitisation positions (article 449 CCR)

BNG Bank acts primarily as an investor in the most senior tranches of securitisations for the ALM portfolio; these investments in securitisations are part of the banking book. The underlying assets are mostly home mortgages. The bank does not invest in synthetic securitisations or resecuritisations. As well as acting as an investor in securitisations, BNG Bank fulfils a number of additional roles, albeit to a limited extent. These include the role of Issuer Account Bank and the role of Cash Advance Facility Provider in that the bank provides liquidity facilities to finance securitisations. BNG Bank does not act as an originator or sponsor. This means that the bank has not transferred any assets to securitisations and does not support securitised assets.

	31/12/2017	31/12/2016
SECURITISATIONS BROKEN DOWN BY UNDERLYING ASSETS		
Securitisations on the balance sheet with underlying assets in:		
– Home mortgages	1,060	1,697
– Home mortgages with NHG guarantee	2,197	1,741
– Other	50	50
TOTAL BALANCE SHEET VALUE	**3,307**	**3,488**
Off-balance sheet commitments regarding securitisations	233	262
TOTAL SECURITISATION POSITIONS	**3,540**	**3,750**

At year-end 2017 the balance sheet value amounted to EUR 3.3 billion (2016: EUR 3.5 billion) in securitisation positions. The off-balance sheet securitisation commitments at year-end 2017 amounted to EUR 0.2 billion (2016: EUR 0.3 billion) and concerned liquidity facilities. BNG Bank considers the credit risk of these facilities to be virtually zero. The facilities may only be drawn on under strict conditions (e.g. in the event of technical payment problems), and in that case BNG Bank's claim will have preference over all other claims.

All securitisations in the bank's portfolio have at least one external rating from S&P, Moody's, Fitch or DBRS. Any interest rate risks are hedged with derivatives, in conformity with policy. The aforementioned risks are monitored by the Investment Committee. All securitisations are subjected to an impairment test twice a year. As investments are limited to the most senior tranches the liquidity risk for BNG Bank is considered limited as these senior tranches are impacted last if liquidity issues would arise for the underlying securitisation.

EXPOSURE VALUE AND CAPITAL REQUIREMENT OF SECURITISATIONS BROKEN DOWN BY RISK WEIGHTING	31/12/2017		31/12/2016	
	EXPOSURE VALUE	CAPITAL REQUIRE MENT	EXPOSURE VALUE	CAPITAL REQUIRE-MENT
0%	43	0	32	0
20%	2,389	38	2,555	41
35%	74	2	99	3
50%	736	30	599	24
100%	129	10	243	19
350%	26	7	62	17
1250%	25	–	29	–
TOTAL BALANCE SHEET VALUE	**3,422**	**87**	**3,619**	**104**

Under CRD IV, BNG Bank applies the Standardised Approach (SA) in calculating risk-weighted exposure values of securitisations in relation to credit risk. Most of the securitisation positions have a 20% weighting. A limited number of securitisations have a 1250% weighting because of the rating. BNG Bank takes advantage of the option to offset these items against the CET1 capital.

Mapping of regulatory requirements

For the sake of completeness, below table presents an overview of the regulatory criteria with respect to Pillar 3 disclosures and the location where this information is included in this report. Starting point for these regulatory disclosure requirements is Part Eight of the Capital Requirements Directive (CRR). However, the European Banking Authority as well as the European Commission published several additional guidelines or standards that prescribe in more detail how specific information should be disclosed. Most noteworthy in this respect are the following:

- EBA/GL/2017/01: Guidelines on LCR disclosure to complement the disclosure of liquidity risk management
- EBA/GL/2016/11: Guidelines on disclosure requirements under Part Eight of Regulation (EU) NO 575/2013
- (EU) 2016/200: Implementing Technical Standards with regard to disclosure of the leverage ratio
- (EU) 2015/1555: Regulatory Technical Standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer
- EBA/GL/2015/22: Guidelines on sound remuneration policies
- (EU)1030/2014: Implementing Technical Standards with regard to the disclosure of the values used to identify global systemically important institutions
- EBA/GL/2014/02: Guidelines on disclosure of indicators of global systemic importance
- EBA/GL/2014/03: Guidelines on disclosure of encumbered and unencumbered assets
- (EU)1423/2013: Implementing Technical Standards with regard to disclosure of own funds requirements

CRR	DESCRIPTION	ADDITIONAL GUIDELINES OR STANDARDS	APPLICABLE TABLES OR TEMPLATES	CLARIFICATION, IF NEEDED	LOCATION PILLAR 3 REPORT
Article 435	Risk management objectives and policies	EBA/GL/2016/11	EU OVA EU CRA EU CCRA EU MRA	This requires a comprehensive overview on the risks management objectives and policies. This is mostly qualitative information for which no specific format is required. In fact, the risk section of the Annual Report includes all of the information. For the sake of completeness, that section is again included for a large part in this Pillar 3 report as well. However, quantitative information from the annual report has been omitted where possible as EBA regulations now prescribe fixed format templates which are addressed in other sections of this report. Furthermore, it should be noted that quantitative targets on individual risk are not disclosed due to their confidential nature. Information regarding the governance arrangements with respect to the members of the management and supervisory boards is not included again in this report. The most up-to-date information on this can be found on the website of BNG Bank. The Annual Report includes a comprehensive overview on this at end 2017[7].	pp. 8-41
		EBA/GL/2017/01	EU LIQA EU LIQ1	The CRR does not include a separate article on the disclosure of liquidity risk, but EBA has issues guidelines for this under article 435 of the CRR. Therefore, this information is also included in the first section of this report.	pp. 30-31
Article 436	Scope of application		EU LI1 EU LI2 EU LI3 EU LIA		pp. 41-48

Continued on next page

[7] For the Executive Board.
For the Supervisory Board.
The Annual report is available at the website.

Continuation of previous page

CRR	DESCRIPTION	ADDITIONAL GUIDELINES OR STANDARDS	APPLICABLE TABLES OR TEMPLATES	CLARIFICATION, IF NEEDED	LOCATION PILLAR 3 REPORT
Article 437	Own funds	(EU)1423/2013		BNG Bank own funds consists of share capital (which is limited to Dutch public authorities by its articles of association) and hybrid capital. These instruments are only placed privately with a limited number of investors. Therefore terms and conditions for these instruments are not part of the disclosure as they are only made available to these parties on the basis of confidentiality.	pp. 49-68
Article 438	Capital requirements	EBA/GL/2016/11	EU OV1		pp. 69-75
Article 439	Exposure to counterparty credit risk	EBA/GL/2016/11	EU CCR1 EU CCR2 EU CCR8 EU CCR5-A EU CCR5-B	Qualitative information as described in articles 439(a), (b) and (d) is included in the first section on risk management objectives and policies, while article 439(c) is not applicable as BNG Bank has not identified any wrong way risk. In addition articles 439(g), (h) and (i) are also not applicable as BNG Bank has no credit derivative hegdes. The quantitative information from articles 439(e) and (f) are included in accordance with the templates provided by EBA.	pp. 101-107
Article 440	Capital buffer	(EU) 2015/1555		The geographical distribution of the credit exposures of BNG Bank is limited and most of the credit exposures are concentrated in The Netherlands. Currently, no countercyclical capital buffer is required for BNG Bank and therefore no disclosure on this buffer is included. A geographical breakdown of exposures is part of the CRB-C template as included in the section on credit risk.	n/a
Article 441	Indicator of global systemic importance	(EU) 1030/2014		BNG Bank is not identified as G-SII (Global Systemically Important Institutions). Therefore, this article is not applicable for the BNG Bank.	n/a

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CRR	DESCRIP-TION	ADDITIONAL GUIDELINES OR STANDARDS	APPLICABLE TABLES OR TEMPLATES	CLARIFICATION, IF NEEDED	LOCATION PILLAR 3 REPORT
Article 442	Credit risk adjustments	EBA/GL/2016/11	EU CRB-A EU CRB-B EU CRB-C EU CRB-D EU CRB-E EU CR1-A EU CR1-B EU CR1-C EU CR1-D EU CR1-E EU CR2-A EU CR2-B		pp. 76-100
Article 443	Unencum-bered assets	EBA/GL/2014/03			pp. 108-111
Article 444	Use of ECAI's	EBA/GL/2016/11	EU CRD EU CR5 EU CCR3	Qualitative information on the use of ECAI's is included in the first section on on risk management objectives and policies, and specifically in the subsection on credit risk. The quantitative template as provided by EBA is part of the section with templates on credit risk.	pp. 20, 99, 104
Article 445	Exposure of market risk	EBA/GL/2016/11	EU MR1		p. 112
Article 446	Operational risk			As included in table EU OV1 in the section on capital requirements, BNG Bank applies the standardized approach for the assessment of own fund requirements for operational risk.	pp. 33-36
Article 447	Exposure in equities not included in the trading book			BNG Bank has a small exposure in equities. An overview on these exposures is included separately in this Pillar 3 report.	pp. 120-121

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CRR	DESCRIPTION	ADDITIONAL GUIDELINES OR STANDARDS	APPLICABLE TABLES OR TEMPLATES	CLARIFICATION, IF NEEDED	LOCATION PILLAR 3 REPORT
Article 448	Exposure to interest rate risk on position not included in the trading book			An overview on the nature of the interest rate risk is included in the first qualitative part of this reports and is specifically addressed in the subsection on market risk.	pp. 23-27
Article 449	Exposure to securitisation positions				pp. 122-123
Article 450	Remuneration policy	EBA/GL/2015/22		BNG Bank has a prudent system of remuneration which is in line with its simplicity. No variable components as shares or options are included in the remuneration and no individuals are being remunerated EUR 1 million or more. A broad overview on the policies is included in this report. Detailed information regarding the remuneration in the reporting period is included in the Annual Report. More details on the remuneration policy, committee, system and criteria are also provided on the website (e.g. remuneration report).	pp. 113-115 Annual Report, pp. 73-78, 125-128 Website
Article 451	Leverage ratio	(EU) 2016/200			pp. 116-119
Article 452	Use of IRB approach to credit risk			BNG Bank does not apply the IRB approach.	n/a
Article 453	Use of credit risk mitigation technique		EU CRC EU CR3 EU CR4	Qualitative information as described in tables EU CRC and EU CRD is part of the comprehensive disclosure in the first section on risk management objectives and policies. The prescribed quantitative templates are included separately in this report.	pp. 16-22, 96-100

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CRR	DESCRIPTION	ADDITIONAL GUIDELINES OR STANDARDS	APPLICABLE TABLES OR TEMPLATES	CLARIFICATION, IF NEEDED	LOCATION PILLAR 3 REPORT
Article 454	Use of the Advanced Measurement Approaches to Operational Risk			BNG Bank does not apply the AMA approach to operational risk.	n/a
Article 455	Use of internal market risk models			BNG Bank does not apply internal market risk models.	n/a

COLOPHON

Editorial: BNG Bank
Design & production: Ron Goos, Rotterdam

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

BNG BANK