BNG BANK ANNUAL REPORT

2020

BANK

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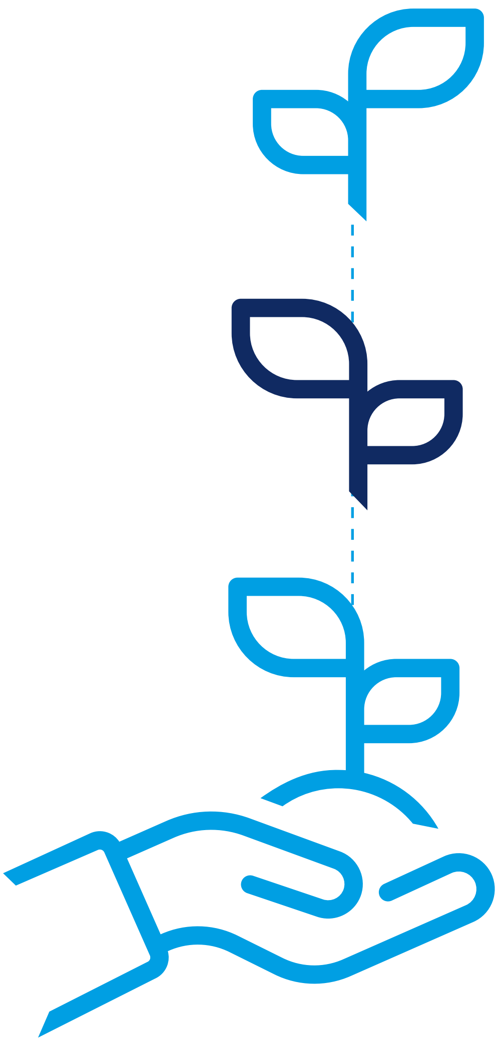
DRIVEN BY SOCIAL
IMPACT



FOREWORD

BNG Bank supports the public sector in difficult times

In 2020, the COVID-19 pandemic drastically affected clients, employees and society as a whole. We are satisfied to see that in these difficult times we have been able to continue to assist our clients in the public sector and offer our employees a safe working environment, while also achieving good financial results.

The operational and financial pressure resulting from the pandemic is especially strong among care institutions and municipalities, although the financial compensation by the government is limiting the financial consequences of the COVID-19 pandemic for municipalities.The safety net established by the government and health insurance companies has alleviated the financial impact on the care sector. We have assisted our clients where possible and ensured that we have been able to continue lending at attractive terms in these difficult times.

In order to maintain continuity of service, heavy demands have been placed on our staff in terms of their ability to adapt. By embracing new digital ways of working and working from home, they have demonstrated maximum commitment to our clients. We are proud of our employees.

Social impact

2020 was also the year in which we sharpened our strategy. BNG Bank is a bank that is guided by social impact. We have put this into words in our purpose: ‘driven by social impact’. We choose to focus exclusively on the public domain and on increasing our social impact on four Sustainable Development Goals (SDGs):
- Good health and well-being (SDG 3)
- Quality education (SDG 4)
- Affordable sustainable energy (SDG 7)
- Sustainable cities and communities (SDG 11).

In order to actively work on improving our social impact, we will be measuring and reporting on this impact.

Financial results

We are pleased with the financial results we achieved in 2020. The net profit for 2020 amounted to EUR 221 million, despite extremely low interest rates. The 36% increase in profit is due primarily to a historically high one-off provision made in 2019. The interest result of BNG Bank was EUR 477 million. The net result on financial transactions was EUR 17 million negative. This represents a decrease of EUR 53 million relative to 2019, which was due primarily to the COVID-19 pandemic. Among other effects, this crisis has led to higher spreads for credit and liquidity risks of interest-bearing securities and loans, resulting in lower valuations.

The volume of new long-term lending was EUR 11.7 billion. Relative to year-end 2019, the total long-term loan portfolio increased by EUR 1.8 billion to EUR 86.0 billion. The portfolio of long-term loans to housing associations showed particularly strong growth.

BNG Bank is a well-capitalised bank. As of year-end 2020, the Common Equity Tier 1 ratio and the Tier 1 ratio were 33% and 39% respectively. The leverage ratio amounted to 3.5% at the end of 2020. Rating agency Fitch recently confirmed BNG Bank's AAA rating, while Moody's and S&P have awarded BNG Bank the highest rating category as well. This places BNG Bank among the safest banking institutions in the world.

Executive Committee

In line with our redefined strategy, the decision was reached to change the bank’s senior management structure. In order to guide the process of building client partnerships and the optimum internal organisation that this requires, it was decided to supplement the three existing members of the Executive Board with a Chief Commercial Officer (CCO) and Chief Operating Officer (COO). Together, the five board members will make up the Executive Committee. On 15 February 2021, Cindy van Atteveldt was appointed CRO of BNG Bank as successor to John Reichardt. As of March 1, 2021, Jaco van Goudswaard has been appointed as quartermaster and intended COO. The procedure for the vacancy of CCO is still ongoing.

Outlook for 2021

This year, like the last, will be heavily influenced by the COVID-19 pandemic. BNG Bank will continue to do everything possible to support its clients. Based on our purpose and strategy, we are focusing on increasing our social impact. We are investing in building client partnerships and in staff development. Our workforce is growing, specifically in order to meet supervisory and regulatory requirements. We consider it necessary to take this measure this year. At the same time, we are committed to optimising our processes in order to keep operating costs and therefore financing costs for our clients as low as possible.

The financial markets are expected to remain quite volatile. It would therefore be imprudent to issue a forecast concerning the net result for 2021. The low interest rates will continue to put pressure on the development of the interest result.

In conclusion

The year 2020 was a difficult one, while 2021 will present further challenges. We recognise the strength of our highly motivated employees, who have made a conscious choice to work for a bank that has social impact. We would like to express our gratitude to them and to our shareholders, clients, Supervisory Board members and other stakeholders for their contribution to our performance. We would also like to say a special word of thanks to John Reichardt for his contribution to the sound reputation and results of BNG Bank.

Gita Salden
Chief Executive Officer BNG Bank

2020 SELECTED FINANCIAL DATA

Volume of lending

€ 11.7 billion

Balance sheet total

€ 160.4 billion

Net profit

€ 221 million

Total loan portfolio

€ 86 billion

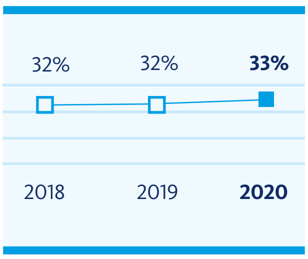
Proposed dividend

€ 101 million

BNG Bank proposes to distribute a dividend to **shareholders** of **50%** of the profit available to them.

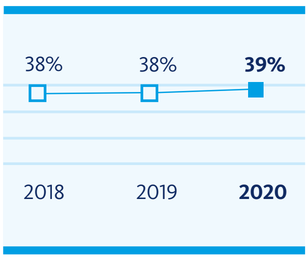
Common Equity Tier 1 ratio

33%



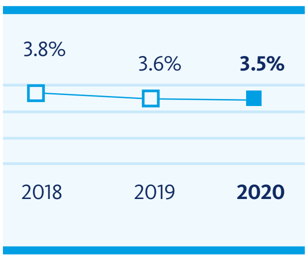
Tier 1 ratio

39%



Leverage ratio

3.5%



Driven by **social impact**

1 DRIVEN BY SOCIAL IMPACT

1.1 Our Road to Impact

In 2020, BNG Bank reflected on its purpose and core activities. This resulted in 'Our Road to Impact', the direction which BNG Bank intends to follow in the coming years, with a clear purpose and strategic priorities.

Purpose: Driven by social impact

BNG Bank's activities revolve around making a social impact. This is the key theme of the bank's discussions with its clients, based on which it makes its choices. BNG Bank focuses on the public sector and on building client partnerships. The aim is that clients regard BNG Bank as a natural partner for the resolution of social issues, that the bank is successful in this and that the bank can demonstrate its social impact.

Core values: sustainable, reliable and professional

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

- **Sustainable** indicates that BNG Bank's actions are focused on making an impact, both now and in the long term. The bank knows what is happening in society, and is focused on solutions and on the relationship with clients.
- **Reliable** is manifested in transparency in actions and communication. BNG Bank is clear and honest about what it can do and keeps its promises.
- **Professional** defines how BNG Bank works, how it develops and how it engages with itself and others in a professional context. BNG Bank works effectively and keeps developing. The bank shows respect for others, listens carefully, addresses and learns from mistakes.

Focus on public sector

In recent years, BNG Bank provided a range of clients with a range of products and services, which has resulted in fragmentation of the bank's activities. 'Our Road to Impact' involves a redefinition of focus, by clarifying the following.

- The bank's purpose: maximum social impact.
- Who the bank serves: of and for the public sector.
- What the bank is: sustainable, reliable and professional.

BNG Bank chooses to serve the public sector in the Netherlands, in which it has its roots. The public sector includes:

- central government, provinces, municipalities and water boards;
- organisations that fulfil a public task, such as housing associations and healthcare and educational institutions;

- organisations that have half or more of their share capital supplied by the government and/or activities that are fully guaranteed by the government.

Strategy redefinition

In 2020, BNB Bank reflected on its purpose and core activities. This resulted in 'Our Road to Impact', the direction which BNG Bank intends to follow in the coming years. In this context, the Executive Board determined BNG Bank’s strategic framework in consultation with the Supervisory Board. Subsequently the redefined strategy was translated into department plans. To this end, teams of employees familiarised themselves with the strategic framework and were able to engage with considering the meaning of the strategic framework for their department and the department plans, and the consequences for their own work. At the end of November 2020, the redefined strategy was shared with clients, shareholders and other stakeholders. More information on ‘Our Road to Impact’ can be found on the website.

Building client partnerships

BNG Bank has opted to build client partnerships. BNG Bank wants to be more to its clients than simply a provider of loans. Because of its strong position in the public sector, the bank can and wants to be more than that. BNG Bank wants to be a natural partner that is known for its expertise and genuine commitment, a partner that actively contributes to the resolution of social issues.

BNG Bank wants to serve its clients by providing them with the right product, via the right channel and at the right time. For this reason, the bank actively engages with its clients to discuss their current and future needs, whereupon the bank can adapt its services.

Demonstrable social impact

In the coming years, BNG Bank will concentrate on strengthening the client relationship through greater focus and through building client partnerships and the optimum internal organisation that this requires. This conscious choice will enable BNG Bank to achieve its ambition: BNG Bank is a public bank that delivers demonstrable social impact and that is seen by its clients and other stakeholders as a natural partner for the resolution of social issues.

In order to work actively on enhancing its social impact, BNG Bank will measure and report on this impact. The bank will do so on the basis of the Sustainable Development Goals (SDGs), having selected four SDGs in areas where the bank, together with its clients, can make a difference. The manner in which this impact is measured will be described in the 2021 Annual Report.

GOOD HEALTH AND WELL-BEING:

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

SUSTAINABLE CITIES AND COMMUNITIES:

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

QUALITY EDUCATION:

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

AFFORDABLE AND CLEAN ENERGY:

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

Stayinc., Eindhoven

Good and affordable housing in Eindhoven

Mix of social and non-subsidised housing

11 SUSTAINABLE CITIES AND COMMUNITIES

Mid-range rent housing between **€ 720 - € 1,000** per month

1.2 Continuity of services in an extraordinary year

The COVID-19 pandemic caused a global economic recession, with profound economic and social consequences throughout the world. The continuity of BNG Bank's services remained ensured throughout 2020.

Far-reaching economic and social consequences of the COVID-19 pandemic

Having first emerged in the Chinese city of Wuhan in December 2019, the coronavirus rapidly spread across the rest of the world. In order to keep number of infections and victims to a minimum and reduce the pressure on the healthcare sector, the governments of most Western countries decided in March 2020 to impose a lockdown, which meant that economic and social activities largely ground to a halt. This affected the hospitality, transport, tourism, personal care and culture sectors in particular. The restrictions proved effective and could therefore be gradually eased in many countries from May 2020. However, infection numbers rose again in the autumn, which caused governments to tighten restrictions again. In November, earlier than expected, the pharmaceutical companies Pfizer/BioNTech and Moderna announced that they had developed suitable vaccines. A large number of Western countries started vaccinating their populations in December 2020. Expectations are that governments will bring the COVID-19 pandemic under control in the course of 2021.

The COVID-19 pandemic has had profound economic and social consequences for BNG Bank clients. Of BNG Bank's client sectors, it is healthcare institutions and municipalities in particular that play an important role in limiting the consequences of the pandemic and implementing the measures taken by the government. The pandemic has had major financial consequences for them (see also the section on client sectors). BNG Bank endeavours to help clients through this difficult period and to ensure continuity of services. Thus, BNG Bank took part in a joint initiative of banks to grant clients who requested this a repayment holiday for loans up to EUR 2.5 million, creating extra financial breathing space.

In March 2020, the situation in the financial markets took a nosedive due to the COVID-19 pandemic, causing a near-total closure of the market for a number of weeks. Thereafter the market gradually reopened, initially with greatly increased credit and liquidity spreads. Since the start of the COVID-19 pandemic, BNG Bank always had sufficient access to the capital market and had sufficient liquidity at its disposal to provide its clients with financing (see also the section on money and capital markets).

Strong contraction of Dutch economy

In order to limit the economic and social consequences of the COVID-19 pandemic, governments worldwide launched large-scale support programmes for companies, self-employed persons and institutions. The EU set up a joint support programme of EUR 750 billion, known as the 'Next Generation EU'. The core of this programme is the Recovery and Resilience Facility. This facility offers countries financial support in the form of loans and subsidies for mitigating the economic impact of the pandemic.

Economic activity in the Netherlands declined sharply in 2020 as a result of the COVID-19 pandemic. The decline would have been even greater if the government had not introduced substantial measures to support the business community. Thanks to schemes providing for continued salary payment, a tax holiday and compensation for overheads, to name just a few, companies and institutions could stay afloat and many jobs were saved. As a result, there was only a limited rise in unemployment. The pandemic also put pressure on the financial position of municipalities. To help them, the government made support packages available and postponed a number of proposed cuts to the Municipal Fund. Because of the safety net for the healthcare sector set up by the government and health insurance companies, the decrease in the healthcare sector's financial results was limited. During 2020, BNG Bank endeavoured to help clients through this difficult period and to ensure continuity of services. Clients will still be affected by the COVID-19 pandemic in 2021. BNG Bank will continue to do everything possible to support its clients. BNG Bank's funding policy will continue to be focused on ensuring permanent access to the money and capital markets for the terms and volumes required at the lowest possible rates.

Because of its open nature, the Dutch economy was also badly affected by the decline in international trade in 2020. Both exports and imports fell significantly. Gross domestic product (GDP) decreased by approximately 4.0% in the past year, after growing by 1.9% in 2019. However, economic contraction was not as large as in most other European countries. This was due in part to the relatively favourable financial situation of the Dutch government. As a result, the government had considerable budgetary scope for limiting the economic consequences of the pandemic. What is more, digitisation is more advanced in the Netherlands than it is in most other countries, which meant that many employees could work from home. Because of increased online sales, companies were better able to maintain their turnover level. Inflation fell from 2.6% in 2019 to about 1.0% in 2020.

The COVID-19 pandemic caused a turnaround in government finances. As a result of government support programs, the budget deficit according to official forecasts amounted to EUR 48.4 billion in 2020 (6.1% of GDP). In 2019, the government had recorded a surplus of EUR 13.8 billion (1.7% of GDP). Gross public spending increased in volume by 12.7%, with transfers to companies going up most. Expenditure on public administration and healthcare was also higher than in the previous year. Despite a significant rise, government debt in 2020 remained below the reference value of 60% agreed in the context of the European Union. At the end of 2020, gross government debt amounted to EUR 450 billion (nearly 57% of GDP). In 2019, government debt was approximately 49% of GDP.

Dutch businesses endorse sustainability in COVID-19 recovery

BNG Bank was one of the nearly 250 companies that signed the 'Dutch businesses endorse sustainability in COVID-19 recovery' declaration. In this declaration, companies argue that sustainability should be the cornerstone of COVID-19 recovery plans. This declaration was drawn up on the initiative of the Dutch Sustainable Growth Coalition (DSGC), consisting of eight Dutch multinationals. The DSGC seeks to achieve sustainable growth by combining economic profit with developments in the social sphere and by contributing to the SDGs.

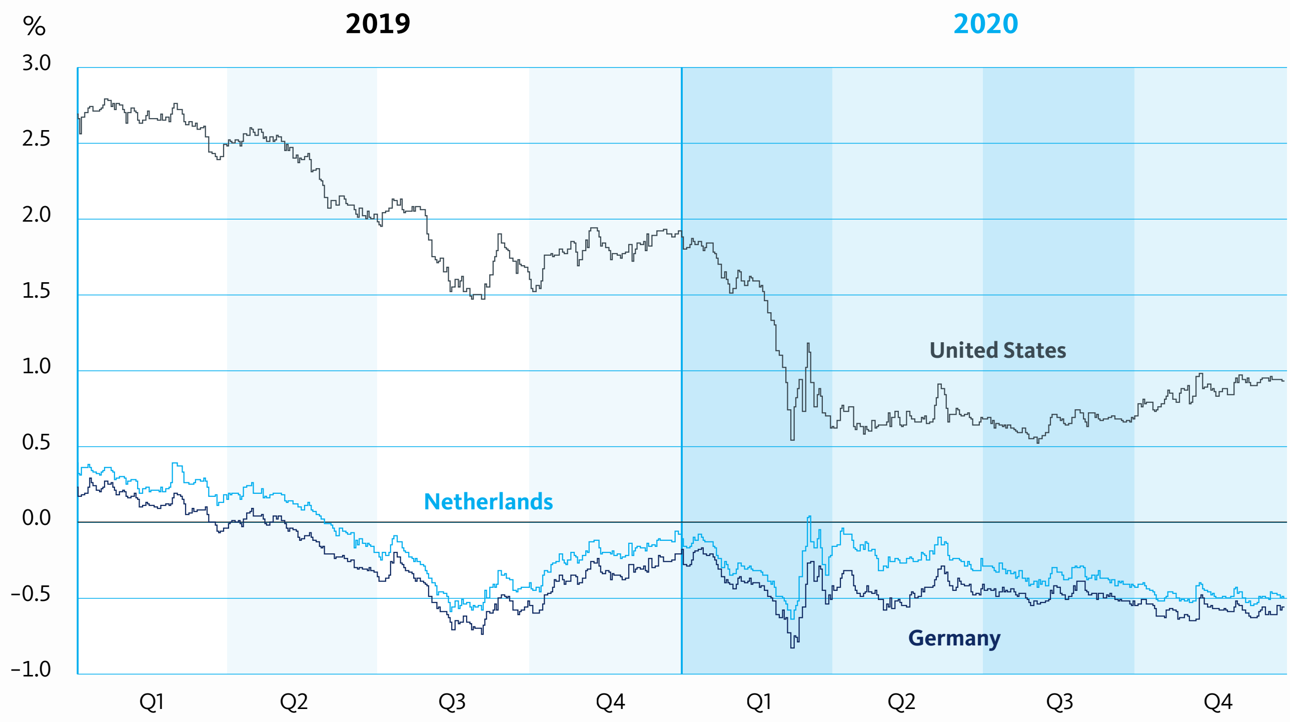
Agreement on Brexit

After lengthy negotiations, the United Kingdom and the European Union reached an agreement on 24 December 2020 about the conditions of the British exit from the EU on 1 January 2021. Under the agreement, no import duties and quotas will be introduced on foreign trade. However, British and European companies will be facing trade barriers such as border checks, export declarations and certificates. The free movement of persons will end as well. From 2021, businesses in the services sector in the United Kingdom will have to abide by the rules of individual Member States or of the EU as a whole if they want to continue operating in those countries. The United Kingdom will have to comply with a number of European directives on subjects such as the environment, employment law and state aid. If the country fails to do so, the EU has the option to impose import duties on British products after all. This is meant to prevent unfair competition and protect the internal market, which means that the EU's main condition for Brexit is fulfilled. Any disputes about the trade agreement will be resolved through arbitration.

Further to the outcome of the UK European Union membership referendum in 2016, BNG Bank carried out a detailed impact analysis. The bank does not offer any material cross-border services in the United Kingdom. The volume of transactions with financial counterparties in the United Kingdom is considerable, however. In this context, BNG Bank has taken mitigating measures for both hedging and clearing activities which safeguard the continuity of operations.

Lower interest rates

The COVID-19 pandemic prompted central banks to relax their monetary policies. The ECB decided to increase its securities purchases via the 'Pandemic Emergency Purchase Programme' (PEPP). In addition, it launched new loan programmes for banks at highly favourable rates, aimed at stimulating lending. The international relaxation of monetary policies caused long-term interest rates in most Western countries to decline. In the United States, the interest rate on ten-year government bonds fell by one percentage point to 0.9 percent. In Germany, the comparable interest rate fell from −0.2% to −0.6%. The interest rate on ten-year Dutch government bonds decreased from −0.1% to −0.5%. Thus, the low interest rates had a significant impact on the bank's financial results (see also the section entitled Financial results). The graph below shows the interest rates on ten-year government bonds.



Source: Macrobond

Significant events in 2020

January

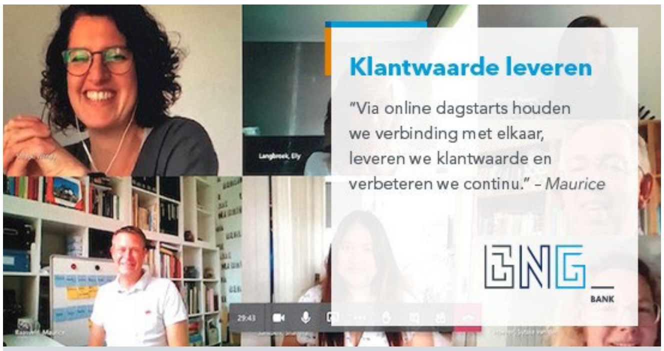
BNG Sustainability Fund launches with sports loans

Sports associations are able to apply for a sports loan from the BNG Sustainability Fund to make their accommodation more sustainable. Thanks to a guarantee underwritten by Stichting Waarborgfonds voor de Sport, these loans have a very attractive rate of interest.

February

BNG Bank goes live with Switch Check

Clients can benefit from SurePay's Switch Check. They receive a notification in their online banking environment if the person or company they are transferring money to has switched to a different bank. The notification shows the new account number, which clients can immediately save in their banking address book.



March

Working from home due to the COVID-19 pandemic

BNG Bank divides its employees into two groups that do not have any physical contact with each other. BNG employees work partly at the head office and partly at a back-up site. In addition, as many employees as possible work from home.

April

Joint statement: continuing to build on the Netherlands together

Based on discussions with Minister of the Interior and Kingdom Relations Ollongren, more than 30 parties, including BNG Bank, declare in a joint statement that they will make efforts and take responsibility in order to minimise the potential negative impact of the COVID-19 pandemic and to safeguard the continuity of construction and employment as much as possible.

May

Wijkkompas helps to make neighbourhoods more sustainable

BNG Bank launches the ‘Wijkkompas’ (neighbourhood compass) together with a number of municipalities, housing associations and the non-profit organization Stroomversnelling, to help make neighbourhoods more sustainable.

September

Municipality of Noordenveld wins 2020 Heritage Award

Noordenveld is a passionate supporter of the numerous initiatives devised by its residents and volunteers. The jury found that the municipality’s expert heritage team is particularly diligent and committed in its approach to the well-preserved historical environment. This award is a BNG Cultuurfonds initiative.

November

Our Road to Impact

BNG Bank refines its strategy. The bank has a history of social impact as a guiding principle and announces that it will now focus exclusively on the public domain in the Netherlands in order to create even more social impact than before.

December

Apeldoorn chooses BNG Bank

Following a European tendering procedure, the municipality of Apeldoorn selects BNG Bank as its principal banker.

The tender was awarded for ten years based on a Schedule of Requirements and the award criteria ‘Price’ and ‘Quality’

December

BNG Bank publishes policy paper on heating networks

BNG Bank proposes that municipalities set up a Regional Heat Management Company. This ties in with the leading role of the municipalities, while offering central government greater professionalism and scope for action.

1.3 Increase in loans to client sectors

It is healthcare institutions and municipalities in particular that play an important role in limiting the consequences of the COVID-19 pandemic and implementing the measures taken by the government. BNG Bank endeavoured to help clients through this period and to ensure continuity of its services.

Local authorities are under pressure

Developments at local authorities

The COVID-19 pandemic has had major consequences for the functioning of local authorities. The year 2020 was an eventful one for municipalities in particular. The pandemic put pressure on their financial position and administrative organisation. In operational terms, the workload, already high because of the implementation of the Youth Care Act and the Social Support Act, and the introduction of the Environment and Planning Act, was further increased by the need to provide (temporary) support to loss-making non-commercial organisations and self-employed persons. The additional work associated with implementing the regulations on social assistance and debt support increased the workload even further. In financial terms, the municipalities were confronted with falling revenue from rents, levies and taxes, versus rising expenditure on enforcement, assistance, healthcare institutions, public transport and cultural and sporting organisations. This reinforced the decline in their financial position, which had been under pressure since 2015 due to the decentralisation of government tasks and cuts to the Municipal Fund. The provincial authorities were confronted with decreasing revenue from public transport and had to take measures to support the regional economy and the cultural sector.

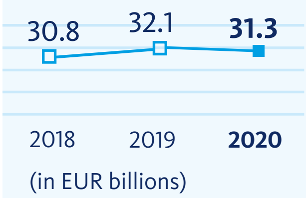
The clear signals given out by municipalities about the deterioration in their financial situation found a response with the central government. Altogether, an amount of EUR 1.3 billion in support packages was made available and a number of proposed cuts to the Municipal Fund were postponed. Furthermore, the payments from the Municipal Fund were fixed for 2020 and 2021 at the level specified in the 2020 Spring Budget Memorandum. This means that municipalities now have sufficient liquidity for the foreseeable future. Nevertheless, municipalities expect that, without additional structural measures, they will be forced to further reduce spending on desirable public investments if they want to keep expenditure under the Social Support Act 2015 and on youth care at the same level.

As regards the implementation of the Climate Agreement and the energy transition, municipalities are in the process of determining the role they can fulfil and their financial scope for doing so. The declining investment opportunities hamper the ambitions to stimulate sustainability at local level. A positive development is the creation of local renewable energy cooperatives: collectives of residents who develop joint initiatives to launch renewable energy projects, set up in collaboration with or supported by the municipal authorities.

Local authorities

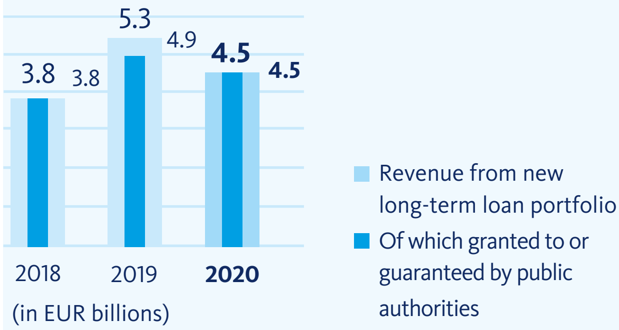
Long-term loan portfolio

€ 31.3
billion



Revenue from new long-term loan portfolio

€ 4.5
billion



11 SUSTAINABLE CITIES AND COMMUNITIES 7 AFFORDABLE AND CLEAN ENERGY

BNG Bank provides funding to decentral governments, helping them to achieve sustainable cities and communities (SDG 11) and affordable and clean energy (SDG 7).

BNG Bank partner of local authorities

During BNG Bank's discussions with municipal authorities, consideration is given to the support which the bank can offer municipalities to help them meet their financial challenges. On this occasion, the bank provides advice on subjects such as the possible financing structure of current and future investments. Not only financing aspects are addressed. Given the current low interest rate, BNG Bank also draws attention to the additional organisational costs, such as expert fees, which are becoming increasingly relevant in choosing the form which a project will be given. This is in line with the aim to build client partnerships, which the bank identified as one of the priorities in its redefined strategy.

Online contacts with clients are now going smoothly as well after a brief acclimatisation period. During the first months of the COVID-19 pandemic, BNG Bank issued weekly newsletters to municipalities addressing relevant developments and activities of the bank. Furthermore, the bank organised webinars rather than physical meetings with various groups of municipalities. Together with the Federation of General Government Resources Managers (FAMO), BNG Bank organised a conference on spending the revenue from the sale of Eneco shares (the energy company that was owned by a number of Dutch municipalities).

Social return

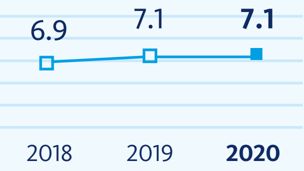
Successful bidders in tenders issued by public authorities are legally obliged to make a contribution to Social Return On Investment (SROI), for example by hiring someone with limited access to the labour market. BNG Bank gives substance to SROI by contributing to social projects, or by using a platform to bring together demand and supply in relation to social initiatives.

Healthcare

Long-term loan portfolio

€ 7.1

billion

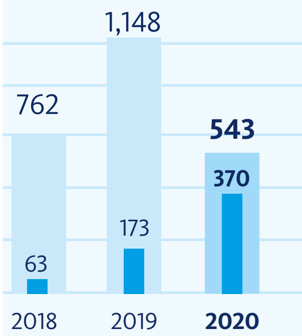


(in EUR billions)

Revenue from new long-term loan portfolio

€ 543

million



(in EUR millions)

- Revenue from new long-term loan portfolio
- Of which granted to or guaranteed by the healthcare guarantee fund (WfZ), among others

3 GOOD HEALTH AND WELL-BEING

The services provided by BNG Bank to the healthcare sector directly contribute to the good health and well-being (SDG 3).

Major impact of COVID-19 pandemic on the healthcare sector

Developments in healthcare sector

The pandemic further increased the already considerable staff shortages and workload in the healthcare sector. Turnover was lower and costs were higher than expected. Because of the safety net for the healthcare sector set up by the government and health insurance compancies, the decrease in the healthcare sector's financial results was limited in 2020.

The government has pursued a policy of decentralisation of government tasks in recent years, with municipalities taking over many tasks from central government, subject to certain conditions. The aim was to bring the organisation of healthcare and support closer to the local community, resulting in more tailored services and saving costs. However, municipalities structurally lack the funds to adequately carry out their duties in the areas of youth care and social support. The ageing population and demographic developments put further pressure on healthcare and its affordability. These developments have forced the sector to organise healthcare differently, with more scope for prevention, more regional coordination and more public management. The digitisation of healthcare, such as remote monitoring and online consultations, was given an extra impulse by the COVID-19 pandemic.

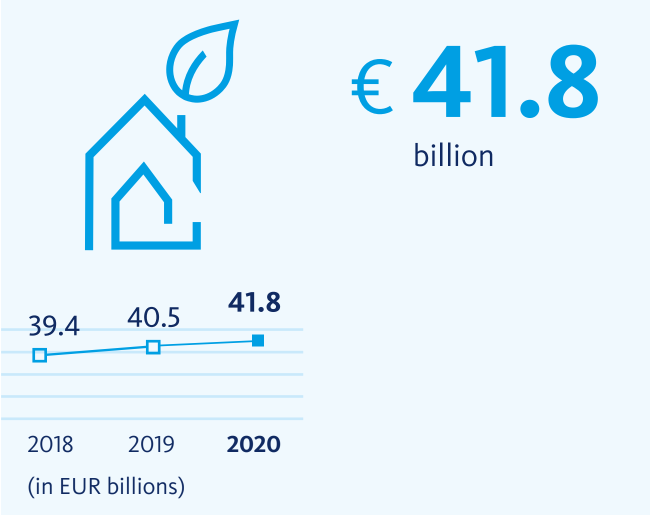
BNG Bank partner of the healthcare sector

Lending by BNG Bank to the healthcare sector remained consistent in 2020. Together with the central government, health insurance companies and other stakeholders, BNG Bank, as a member of the Netherlands Bankers' Association, designed the safety net for the healthcare sector, with the aim to keep the financial impact of the pandemic on clients to a minimum and ensure the continuity of healthcare where possible. What will happen to the financial situation of healthcare institutions and credit demand in 2021 depends on the further development of the COVID-19 pandemic and the manner in which the safety net will be continued. The healthcare procurement procedure and the next government's policies will play a part in this as well.

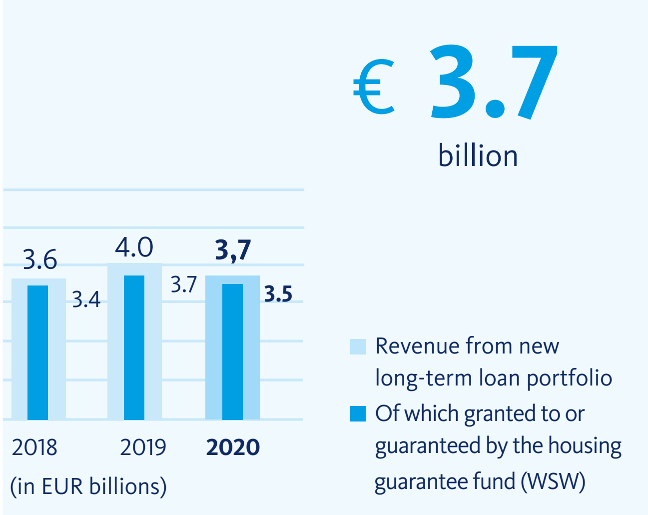
In 2018, BNG Bank co-signed the Green Deal entitled 'Sustainable healthcare for a healthy future', together with several other banks. Arrangements were made with parties in the healthcare sector aimed at making healthcare in the Netherlands more sustainable by reducing CO_2 emissions and stimulating the circular economy. In addition, agreements were reached on creating a healthcare environment which encourages residents, professionals and visitors to adopt a healthy lifestyle, as well as on reducing the quantity of drug residues in surface water and groundwater.

Housing associations

Long-term loan portfolio



Revenue from new long-term loan portfolio



BNG Bank's financial contribution helps housing associations to achieve more sustainable cities and communities (SDG 11).

Increased investments by housing associations

Developments at housing associations

After a lengthy period of reduced investment, housing associations have been investing more since 2019. The COVID-19 pandemic has had no noticeable effect on the credit demand of housing associations. All the same, the actual investments by the housing association sector remain below its investment ambitions. In 2020, the Ministry of the Interior and Kingdom Relations, the Association of the Dutch Housing Associations (Aedes) and the Association of Dutch Municipalities (VNG) agreed that together they would accelerate the construction of 150,000 public-sector rented homes and increase construction output within two years to at least 25,000 homes per year. This means a significant rise in the current new-build output by approximately 15,000 homes per year. The parties also agreed that housing associations would be encouraged to build mid-range rented homes and affordable owner-occupied homes. However, the increase in production depends on the availability of (suitable) building locations. Building land is scarce, and there are other parties which are often more affluent than housing associations. As well as a shortage of suitable building locations, new construction is hampered by a lack of implementation capacity, the nitrogen issue and high building costs, while the need for social housing continues to be high.

Making existing homes more sustainable is also an important theme for housing associations. Housing associations have agreed that by 2021 their housing stock will have Label B on average and that all homes will be carbon neutral by 2050. The level of sustainability investment will have to increase in order to achieve these long-term climate targets. Due in part to the reduction of the housing association tax and other tax rebates, housing associations still have sufficient financial scope in the short term to invest in new construction and in making existing homes more sustainable. However, the financial strength of the housing association sector does not extend to building sufficient affordable homes and helping increase sustainability also in the future. Associations will need to have greater financial scope in order to accomplish these social challenges in due course. This can be achieved through a reduction of the housing association tax, among other things. The obstacles mentioned earlier, such as the availability of building locations and implementation capacity, will need to be resolved as well.

BNG Bank partner of housing associations

Mid-range rent housing

Mid-range rented homes, with a rent between the social housing rent limit of EUR 737 and approximately EUR 1,000 per month, cater for middle-income households. These households earn too much to qualify for social housing but cannot afford to buy their own property, or are opting to rent on the open market for reasons of flexibility. Mid-range rent housing facilitates movement in the housing market and helps to create more mixed neighbourhoods and complexes, making them better places to live. An increasing number of housing associations is exploring this option. The current lack of sufficient interest in mid-range rent housing among commercial organisations presents housing associations with increased opportunities in this segment. Early in 2020, BNG Bank organised a meeting on mid-range rent housing and funding applications not guaranteed by the Social Housing Guarantee Fund (WSW). Although the extent of housing associations' activities in the mid-range rent segment, whether new construction or the purchase of housing portfolios, has been limited until now, BNG Bank aims to expand its lending in step with the investment level of housing associations and thus actively contribute as a partner to the resolution of social issues.

District Compass

In 2020, BNG Bank, together with a number of municipalities, housing associations and the non-profit organisation Stroomversnelling, launched the District Compass (Wijkkompas) initiative to help districts become more sustainable. By offering an online tool, District Compass supports stakeholders (the relevant municipality, housing association(s), residents and businesses) in the energy transition in a district, and provides inspiration and examples as to how the district implementation plans can be designed and communicated at district level. District Compass enables all parties to learn from the experiences of others. In this way, District Compass offers points of reference for a collective approach in which knowledge, expertise and costs are shared while at the same time everyone retains a certain degree of autonomy. In this context, BNG Bank focuses primarily on making financial tools available and providing information on the aspects and preconditions to be taken into account in respect of investment challenges.

Guarantee system

The guarantee system is of great importance for the social rented housing sector. Because of the guarantee system, loans can be issued on attractive terms. In this way, this system contributes to the availability and affordability of social housing. The Social Housing Guarantee Fund (WSW) acts as guarantor for loans to housing associations, which means that it will take over the payment obligations attached to the loan if the housing association should be unable to fulfil those obligations itself. Through a strategic programme initiated in 2019, WSW wants to make the guarantee system even more robust. BNG Bank contributes to the programme where possible, for instance by offering 'contingent liability loans'. Such a loan ensures that housing associations always have funds available to fulfil any capital commitment they have towards the WSW. This is because the WSW has the right to call in these funds in the event that the WSW's risk capital falls below a particular value.

> Continuing to build the Netherlands together
>
> Over 30 parties, including BNG Bank, have indicated in a joint declaration that they will endeavour to prevent potential negative effects of the COVID-19 pandemic and safeguard continuity in construction output and employment, and accept the associated responsibility. Together, the parties attempt to meet the large demand for homes and accelerate the improvement of the sustainability of existing homes in line with the Climate Agreement. The parties have made arrangements on authorising or accelerating investments, permit granting and tendering processes. In this way, they want to prevent construction projects from being delayed or halted. The parties have also agreed that any risks will be shared.

Major sustainability challenge for the education sector

The COVID-19 pandemic has had a great impact on educational institutions. However, the financial effects have remained relatively limited because of the manner in which schools are funded. This means that there has been little to no loss of revenue.

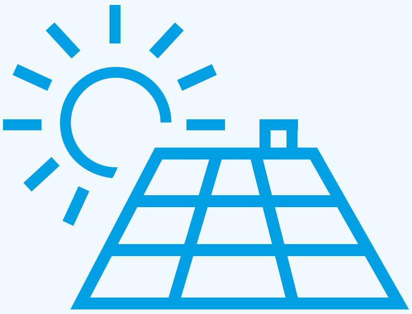
In the context of the Climate Agreement, the educational sector is facing a major challenge to increase the sustainability of its properties. There are differences in the approach towards improving sustainability. Primary and secondary education are working on comprehensive accommodation plans, seeking to improve the energy performance and functionality of school buildings under the direction of municipalities. Senior secondary vocational education (MBO), higher professional education (HBO) and research universities are aiming at a carbon-neutral portfolio by 2050, with investments being made at natural investment and renovation moments.

BNG Bank partner of the educational sector

BNG Bank contributes to affordable, high-quality accommodation for educational institutions, acting as a partner in improving the sustainability of educational properties. With this service to the education sector, BNG Bank contributes to SDG 4: quality education. In 2020, lending by BNG Bank to the educational sector was less than expected. Where primary and secondary education are concerned, funding of investments and sustainability improvement is normally structured via the municipalities. The properties used in senior secondary and higher professional education and universities are financed directly by BNG Bank.

Because of the COVID-19 pandemic, there was no repeat in 2020 of the Education Days organised by BNG Bank, with the aim to raise BNG Bank's profile among school boards and to provide insight into the support the bank can offer in making properties more sustainable.

Revenue subject to solvency requirements



Solar and Wind Energy

2020	2019
€ 130 million	€ 450 million

BNG Bank's funding to the energy transition program directly contributes to affordable and clean energy (SDG 7).

Project financing in respect of energy, the environment, mobility and networks

The tightened strategy and the four SDGs which were selected (see the section Our Road to Impact) have led to a reassessment of which sectors BNG Bank will be active in. In this context, the bank has opted to finance projects in the energy, environment, mobility and networks sectors. These sectors are facing major challenges, such as sustainability improvement and energy transition. BNG Bank is in talks with these sectors in order to discuss the financeability and achievement of these challenges. In line with this lending, the BNG Sustainability Fund has been set up for the purpose of realising small-scale projects.

In 2020, BNG Bank contributed to the annual conferences on increasing the sustainability of properties owned by the municipal authorities and housing associations.

BNG Sustainability Fund

From 2018, the BNG Sustainability Fund has financed business projects that contribute to the sustainability objectives of municipalities or provinces. The fund provides loans ranging from EUR 50,000 to EUR 2,500,000 and facilitates sustainability initiatives in the fields of healthcare, housing and education and in areas such as renewable energy generation and energy-saving measures. Through the fund, BNG Bank is able to meet the demand for simple financing for sustainable projects. Sports associations can apply to the fund for a Sports Loan in respect of a range of investments, from installing sustainable lighting to creating new playing fields. Since the inception of this form of financing early in 2020, the fund has issued more than 45 Sports Loans. More information on the BNG Sustainability Fund and the projects financed by the fund can be found on the fund's website.

Calvijn College, Middelburg

Construction of sustainable school building

€ 6.3 million
in financing

4 QUALITY EDUCATION

1.4 Strong position in money and capital markets

Due to the high external ratings (Moody's: Aaa; FitchRatings: AAA; S&P Global: AAA), BNG Bank is able to raise short-term and long-term funding in various currencies at attractive rates.

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

Developments in 2020

In 2020, the bank raised EUR 15.4 billion in long-term funding in 2020 by issuing bond loans. The average credit spread above the swap rate in 2020 was higher than in previous years due to the outbreak of the COVID-19 pandemic and the relatively high average maturity of the funding raised. The bank's credit spread peaked in the first weeks of March when long-term funding was essentially unavailable. The credit spread then gradually fell again. At the end of 2020, this spread was at a similar level to that of the first few months of the year. BNG Bank's excellent creditworthiness meant that it was able to raise long-term funding at attractive rates throughout the year. Due to the favourable conditions, BNG Bank has decided to also take part in the ECB's third targeted longer-term refinancing operation. The aim of this TLTRO III is to stimulate the real economy by providing liquidity to specific target groups, including housing associations and health care institutions.

Sustainable bonds

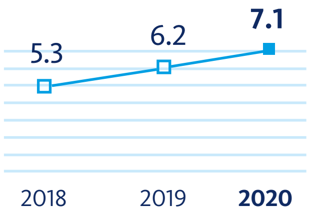
BNG Bank offers sustainable bonds as a special category of public issues. These bonds are issued in line with the international Sustainability Bond Guidelines, administered by the International Capital Market Association (ICMA), and are used to finance municipal authorities and housing associations with the highest sustainability scores in their category. In 2020, BNG Bank issued a 5-year 'Sustainability Bond for Dutch Municipalities' of USD 1 billion and a 12-year 'Sustainability Bond for Social Housing Associations' of EUR 1 billion.

In order to promote sustainable capital markets, BNG Bank started collaborating in 2020 with Government Pension Investment Fund (GPIF) in Japan, the largest pension fund in the world. The sustainable bonds issued by BNG Bank provide GPIF's asset managers with an opportunity to contribute to a sustainable society, while the collaboration enables BNG Bank to increase its social impact.

Key figures for funding

Total outstanding SRI Bonds and Social Housing Bonds

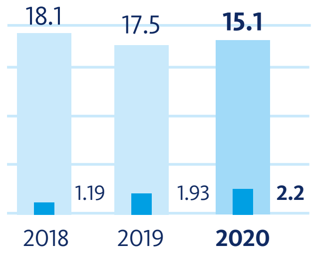
€ 7.1 billion



(in EUR billions)

Funding issued

€ 15.4 billion

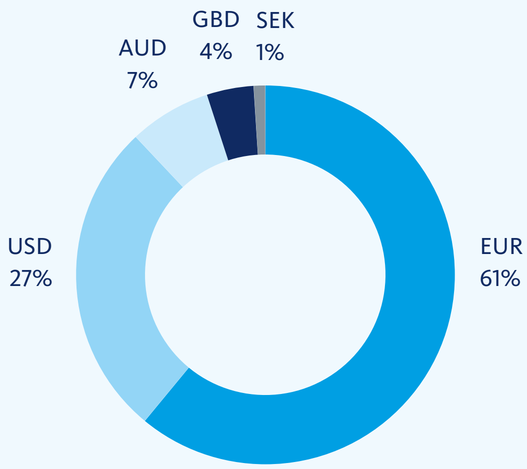


(in EUR billions)

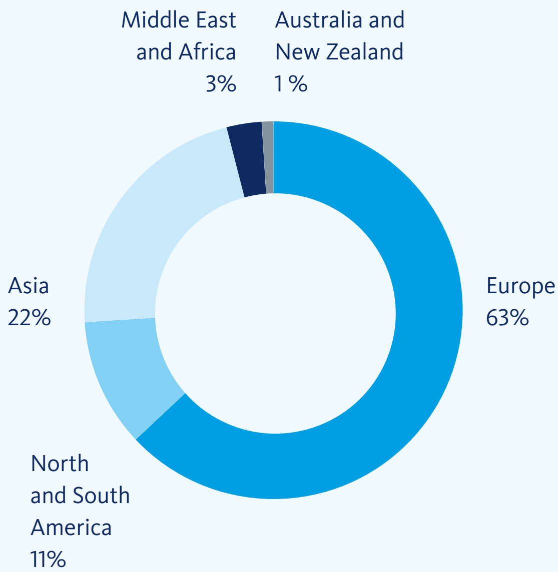
Funding issued

In SRI Bonds and Social Housing Bonds

Funding, breakdown by currency



Funding, breakdown by geographical spread



1.5 Decline in CO_2 emissions of loan portfolio

The climate commitment signed by BNG Bank and nearly the entire Dutch financial sector will help reduce CO_2 emissions.

One of the elements of the 'Financial sector's commitment' is to make the impact of lending and investments on climate change measurable. To this end, BNG Bank joined PCAF, the Partnership for Carbon Accounting Financials. According to the PCAF methodology, direct and indirect emissions of the client are attributed to the bank on the basis of a set of overarching valuation rules. The PCAF methodology is used by a large majority of Dutch banks and a number of foreign banks. In the 2019 Annual Report,BNG Bank reported for the first time on the CO_2 emissions of its lending in 2018. BNG Bank will present an action plan for reducing the CO_2 emissions of its loan portfolio by 2022 at the latest.

The CO_2 emissions of the client sectors are shown in the table below. The CO_2 emissions of the loan portfolio fell by 122 kilotonnes in 2019, while the amount of loans included in the measurements increased. Emissions per million of euros declined by nearly 8%. This decline was due in part to the initiative to make social housing more sustainable. In the public sector, the decline occurred primarily in the Scope 3 emissions, which covers the procurement of goods and services. It is not possible to identify the specific cause of this. A description of the methodology and the sources used can be found in the section Reporting principles. All CO_2 emissions of the various client sectors in 2018 and 2019 are shown in the table included in that section. A detailed report on the CO_2 emissions of the loan portfolio has been published on the website.

The appendix includes an example showing how in a concrete case a BNG Bank loan contributed to reducing a customer's CO_2 emissions.

CO_2 emissions of loan portfolio

	Public Sector	Social Housing	Healthcare Institutes	Education	Water Authorities	Mobility	Other
Emissions (in tonnes/billion EUR) — **Total** 39.9 tonnes	60.8	24.3	57.4	46.7	6.7	19.8	8.8
BNG Bank portfolio as of 31-12-19 in EUR millions (= 500) — **Total** 74.791 million	27,408	39,764	5,234	593	691	1,071	30
	=	=	=	=	=	=	=
Emissions attributed to credit loans by the BNG Bank (kTon) — **Total** 2,985 (kTon)	1666	965	300	28	5	21	0
% change in CO_2 emissions measured in tonnes/billion EUR compared to 2018	- 7.5%	- 10.7%	- 0.3 %	- 4.1 %	+ 1.5 %	+ 25.3%	-
Data quality 5 = precise 1 = approximate	★★★☆☆	★★½☆☆	★★½☆☆	★★☆☆☆	★★☆☆☆	★★★★☆	★★★★☆
% portfolio included in calculation	100%	99%	72%	63%	88%	71%	1%

2 INTERNAL BUSINESS OPERATIONS

2.1 Employees

By strengthening its internal organisation, BNG Bank can offer its clients the best possible service. The bank offers its employees a safe and inclusive working environment and supports them through their career development, by which it creates future-proof and flexible employees.

Strengthening the internal organisation

In 2020, BNB Bank reflected on its purpose and core activities, which resulted in 'Our Road to Impact'. Such an exercise also requires reflection on what this means for the organisation, employees and managers. This is why strengthening the internal organisation is an important strategic priority in 'Our Road to Impact'. In order to achieve ambitions and objectives, the bank needs to determine what this requires of employees in terms of knowledge, expertise, competences, behaviour and development. The bank must also determine what this requires of the organisation's leadership. What does BNG Bank need in order for it and its employees to progress, and what does this mean for the bank's leadership? The bank started this process in 2020. In the context of improving the credit process, it was found that improvements can be made in the areas of knowledge, expertise and competences, as well as in respect of culture and leadership. This will be given further shape in 2021 as part of the strategic personnel planning. BNG Bank will identify the competences required for achieving ambitions and objectives. Strategic personnel planning will help the bank design the desired leadership and employee profiles and give direction to the development of leadership, the adoption and implementation of a labour market communication strategy and the continuation of the active career development policy.

Active career development policy

Active career development policy is an important tool in increasing the personal flexibility of employees and the flexibility of the organisation. BNG Bank plans for employees to remain in the same job for a minimum of three years and a maximum of seven years. To this end, all employees are subject to regular performance and career development assessments, at least once a year, and are offered support in the form of coaching, development scans, internal and external internships and training programmes. Management actively promotes a move to a different field, a different department or team or a change of duties within the team. In 2020, 22 employees changed jobs (16 employees in 2019), and 8 employees took up opportunities for internal or external internships.

Training and mobility budgets are available to all employees, while employees can use coaching and vitality leave for working on their employability and vitality. Employees who are about to retire can follow the 'Pension in sight' course. Employees whose employment contract is terminated can receive coaching and outplacement guidance. Due to the COVID-19 pandemic, it was often impossible to attend training sessions on location. This led to a strong decrease in regular training courses, while it is also not possible to report on the number of hours spent training. However, greater use was made of digital workshops in 2020. The range of workshops and training programmes on offer was very diverse. For example, workshops were organised aimed at skills improvement so as to optimise working from home, such as using Teams, Miro and whiteboards. The workshops relating to career development also went ahead online. Furthermore, there were three digital lectures covering subjects such as living and working during and after the COVID-19 pandemic, in which all BNG Bank employees could attend. During an internal knowledge programme which is repeated annually, employees familiarise new employees with the principal elements of the BNG Bank processes, including the lending process, payment transactions, risk management and data management. In the 'deep dives' that follow, specific topics are discussed in greater depth, such as hedge accounting, capital policy and the standard pricing model. Because of the COVID-19 pandemic, only a part of the programme was carried out in 2020.

Inclusive working environment

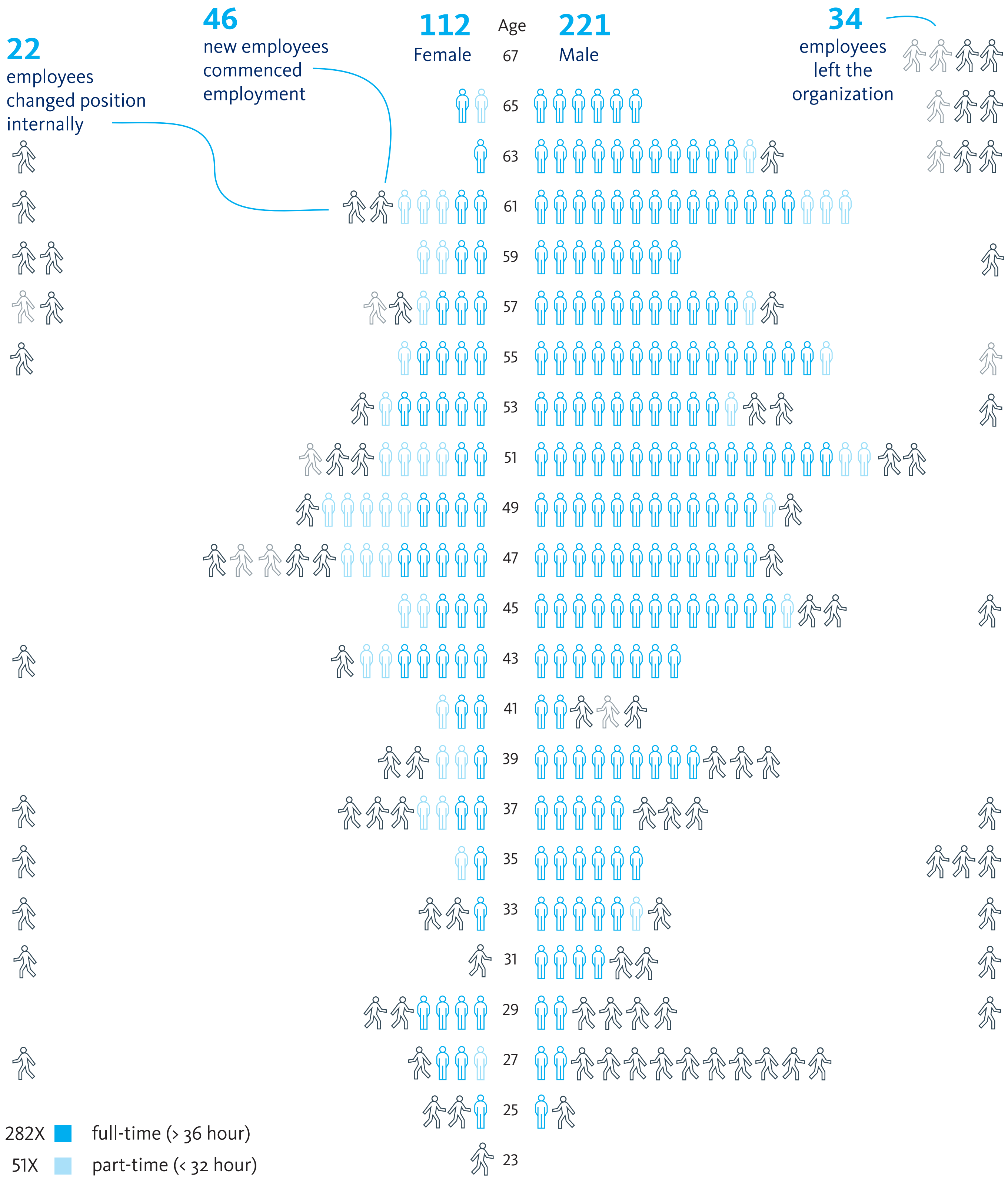
BNG Bank stimulates the recruitment, retention and utilisation of diverse talent and is convinced of its added value. BNG Bank aims to be an organisation that offers a working environment in which people feel welcome, can be themselves and are valued for who they are. The optimum team will consist of a mix of men and women, of different ages and of different backgrounds in terms of ethnicity as well as education, training and competences.

Employees

The workforce of BNG Bank and its subsidiaries increased by 12 employees (6%) to 333 employees (330 FTEs). Seven redundant employees left the bank in 2020. BNG Bank N.V. employs 324 individuals, while its subsidiary BNG Gebiedsontwikkeling B.V. employs 9 individuals. The subsidiary BNG Hypotheekfonds voor Overheidspersoneel B.V. has no employees. Of the bank's employees, 47 (14%) have a fixed-term contract. There are 13 men (4%) and 38 women (11%) working part-time. At 46.6 years, the average age of the workforce remained virtually unchanged relative to last year. The average length of service of the workforce decreased to 12.7 years (13.8 years in 2019). BNG Bank has 46 (45.2 FTEs) external employees occupying formal staff positions and 81 external employees who do not occupy such positions.

Male/female	Supervisory Board	Executive Board	Managers	Employees
Male	4	2	29	221
Female	3 (43%)	1 (33%)	8 (22%)	112 (34%)

333 colleagues



Parental leave is regulated in the Dutch collective labour agreement for the banking industry, CAO Banken. The parental leave scheme was used by 21 employees (14 men and 7 women). 19 employees whose parental leave ended returned to their jobs. Of all BNG Bank employees, 96% are covered by the CAO Banken. All employees participate in the pension scheme. BNG Bank, as the employer, contributes 70% to the pension, with employees contributing 30%. All the figures stated are as at year-end 2020.

Mitigating the impact of the COVID-19 pandemic

The COVID-19 pandemic has had major consequences for BNG Bank employees. Following the outbreak of the pandemic, the Emergency Management Team (EMT), consisting of representatives of departments including HR, Security, IT and Facility Services, met for the first time early in March 2020 and thereafter consulted frequently about the measures to be taken. These measures were in line with the government measures. The bank facilitated working from home and online meetings by providing digital resources, enabling employees to organise their home workspace more efficiently, and giving advice on working from home. Employees fulfilling critical roles were spread across the office in The Hague and the back-up site in Zoetermeer. These employees were offered the possibility to work from a safe office environment because of appropriate safety measures and precautions. Employees are kept involved in the bank and each other through events such as a weekly livestream by the Executive Board, with an opportunity to ask questions, and through virtual daily and weekly start-up meetings.

BNG Bank finds it important to know how employees deal with work challenges and their work-life balance in the uncertain times caused by the COVID-19 pandemic, and how the bank can help and support employees in this where possible. To this end, the employees were surveyed in April 2020 about their home workspace, the facilities and the communication regarding the COVID-19 pandemic. Employees are in general satisfied about the measures taken by the bank. A second survey, conducted in December 2020, confirmed this picture.

Healthy working environment

BNG Bank's working conditions policy is focused on maintaining a healthy working environment for employees and preventing sickness absence. In 2019, the sickness absence rate at BNG Bank was 2.66%. The sickness absence rate for BNG Bank is therefore below the internal marker of 3.0% and equals the average for the financial services sector.

The marker for frequent absence has been set at three or more times sick during the last 12 months instead of over four times a year, in order to aid earlier detection. In the event of frequent absences, the manager in question will hold a meeting with the employee concerned. Additionally, a Social Medical Team (SMT) meeting is held periodically for each manager, which is attended not only by the manager concerned but also by the company medical officer, the staff welfare officer and HR. Possible early warning signals for potential sickness absence are discussed in the SMT. This allows the manager to engage in talks with the employee in good time to discuss what is necessary to prevent absence due to sickness.

An occupational health and safety management system, based on the Working Conditions Act, is in place at BNG Bank. All internal and external employees are covered by this system. More information on this management system is provided on the website.

No reports of discriminatory incidents were received in 2020. The procedure for reporting incidents is set out in the regulations concerning Inappropriate behaviour. In addition, internal and external confidential counsellors are in place.

Restrained remuneration policy

BNG Bank aims for a restrained remuneration policy, in line with its identity and strategy. The Supervisory Board monitors the remuneration policy. The general principles of the remuneration policy for the Executive Board and the employees have been approved by the Supervisory Board. Each year, the implementation of the remuneration policy is reported to the Supervisory Board and the Supervisory Board assesses whether the policy meets the principles for a restrained remuneration policy. The General Meeting of Shareholders approves the remuneration policy for Executive Board members and the remuneration policy for the Supervisory Board.

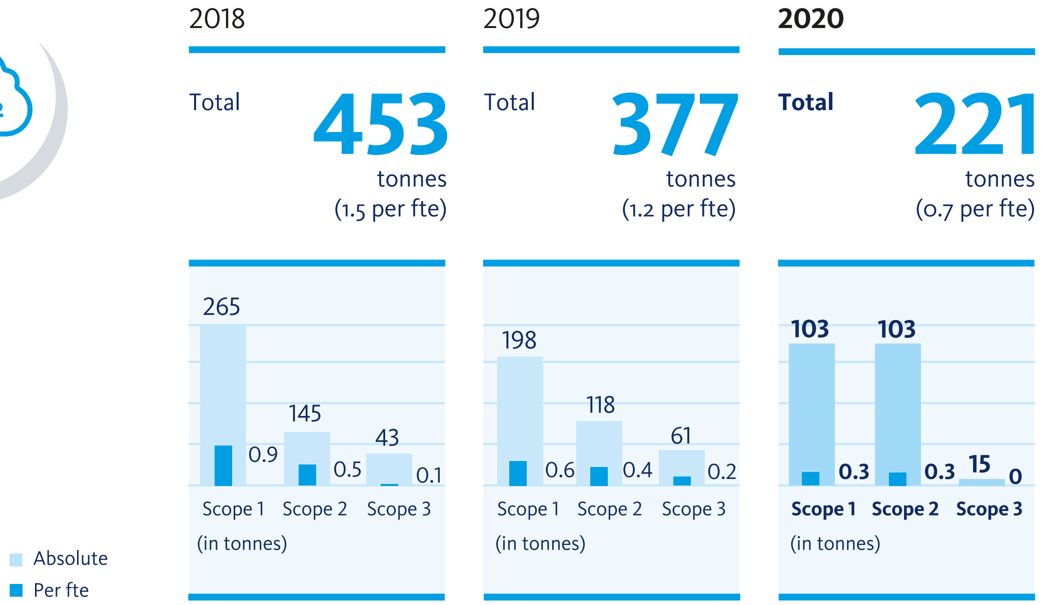
In 2020, the salary of the highest-earning member of the Executive Board was 4.3 times the median of the salary of employees of BNG Bank (4.8 in 2019: the 2019 Annual Report erroneously states a figure of 4.0). The average salary (wage bill) increased by 3.5% compared with 2019. Employees and Executive Board members do not receive variable remuneration.

The remuneration policy and the remuneration report are published on the website. The remuneration of the Executive Board and the Supervisory Board in 2020 is reported on in the Financial Statements.

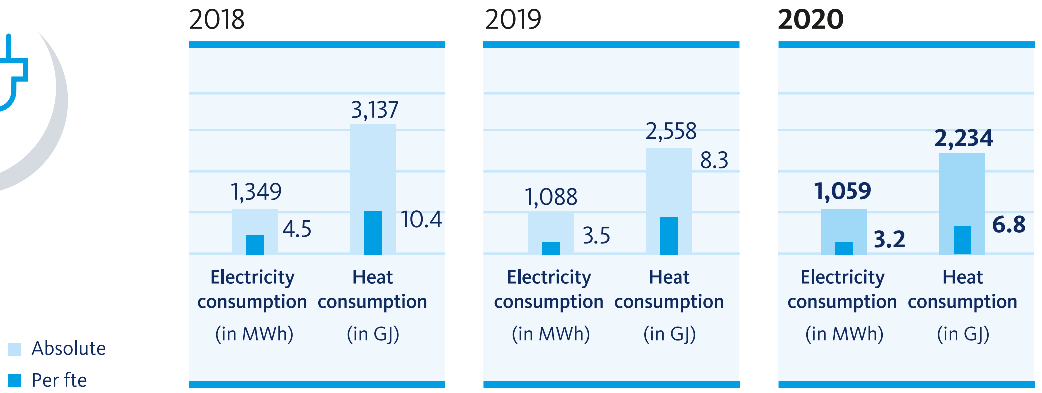
2.2 CO_2 emissions of business operations

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

Emissions



Energy and heat consumption



Each year, the bank reports the CO_2 emissions of its own operations on the basis of Scopes 1, 2 and 3 of the Greenhouse Gas Protocol. In the section entitled ‘Reporting principles’, the calculation of the CO_2 emissions of the internal business operations is explained. The COVID-19 pandemic has had a major impact on the bank’s CO_2 emissions. In 2020, the CO_2 emissions declined by 42% relative to 2019. Additionally, by applying CO_2 compensation measures BNG managed to compensate 300 tonnes, which more than compensates for its own CO_2 footprint. The decline in the bank’s own CO_2 emissions is due to its halving the amount of fossil fuels used by leased cars and the reduction of air mileage to virtually zero. Electricity consumption decreased by 6% relative to 2019, while heat consumption decreased by 13%. The Scope 3 emissions also include the approximate natural gas consumption of the (leased) back-up site.

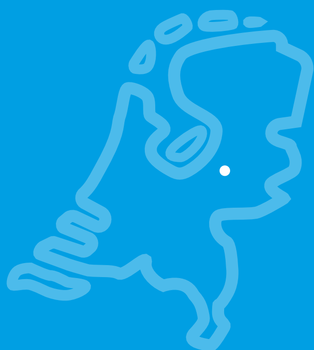
BNG Bank’s office in The Hague is powered by green energy, while part of the CO_2 emissions are being compensated. The bank takes its sustainability policy into account when making decisions on subjects such as accommodation, procurement, ICT and travel policy. In the coming period, BNG Bank will consider the effect of climate risks on its own operations and take measures where necessary (see also the section Risk management).

Municipality of Apeldoorn, principal banker

Payment processing

Implementation of partnership and social return

Provision of current account



2.3 Compliance

In achieving its objectives and ambitions, BNG Bank has to comply with laws, regulations and internal norms, to promote the legitimate interests of its stakeholders and thus safeguard the integrity of its organisation, clients, employees and markets.

Laws and regulations

BNG Bank is faced with many laws and regulations that are often of a complex nature. The risk of inadequate compliance is therefore considerable and requires tight control. The Compliance Management Framework (CMF), which is used to identify the consequences of forthcoming laws and regulations and the preparations that these require, improves the control and demonstrability of compliance. The CMF consists of policy, work procedures, roles and responsibilities to ensure that new or amended laws and regulations are detected in time and the consequences for the bank are analysed and implemented. BNG Bank checks whether the applicable laws and regulations are being complied with, which means that the risk of financial losses or reputational loss due to inadequate compliance is reduced and becomes manageable.

Ethical business practices

Ethical business practices are an important foundation of BNG Bank. Ethical standards of behaviour on the part of its Executive Board members and employees, as well as providing fair products and services, are a key element in this regard. The bank acts with due care while observing responsibilities and applicable rules, in a morally responsible manner and on the basis of generally accepted social and ethical norms. The security of information systems as well as the data entrusted to BNG Bank comply with stringent security requirements. The bank applies internal policy rules and rules of conduct to safeguard its integrity and ensure compliance with relevant laws and regulations. Among other things, these rules provide for the monitoring of employees' private investment transactions, avoiding and transparently managing conflicting interests and shielding confidential information. Attention is also given to maintaining and raising awareness of regulations, compliance procedures and anti-fraud and anti-corruption measures. New employees receive the BNG Company Code, the bank's code of conduct. Internal employees, as well as the external employees required to do so, take the Dutch bankers' oath.

The duty of care and acting in the client's interests have priority in the bank's services. BNG Bank aims to provide transparent products that meet the needs of its clients and whose risks can be easily assessed by clients. BNG Bank ensures that clients are provided with clear and concise information and are warned of the risks attached to certain products. Details of the complaints handling procedure are available on the website. The bank has also drawn up procedures for accepting new clients, monitoring existing clients and avoiding involvement in financial and economic crime. The 'Anti-Corruption and Conflicts of Interest Policy' has been published internally and is available to all employees. Various regulations mentioned in that policy such as the BNG Company Code, the Regulations Governing Private Investment Transactions, rules for gifts from business relations and private transactions with suppliers, and rules for employees holding additional positions, are published on the bank's website and are therefore accessible to all stakeholders. The necessity to avoid involvement in corruption is also addressed in the Customer Due Diligence (CDD) policy. The Systematic Integrity Risk Analysis (SIRA) for BNG Bank and its subsidiaries was most recently updated in 2020. The bank is currently updating and tightening the SIRA process.

No significant compliance and integrity-related incidents occurred in 2020. BNG Bank was not involved in any legal proceedings or sanctions related to non-compliance with laws and regulations in the field of financial supervision, corruption, human rights, the environment, competition, product liability or privacy, or in legal proceedings or sanctions on account of anti-competitive measures to which the bank was party, directly or indirectly.

Supply chain management

BNG Bank acts as an intermediary between the international money and capital markets and the Dutch public sector. There were no changes of note in the chain within which BNG Bank operates in 2020. The bank raises short-term and long-term funding in various currencies on the international money and capital markets. The bonds issued by BNG Bank are tradable on the stock exchange and, accordingly, the bank has no influence over their ownership. BNG Bank covers part of its short-term funding requirement by accepting deposits (predominantly from central banks) and by carrying out transactions with financial institutions. These counterparties are subject to the CDD policy, based on the ethical business practices requirement imposed by the Dutch Financial Supervision Act, the Dutch anti-money laundering legislation (the Money Laundering and Terrorist Financing (Prevention) Act) and the 'Dutch Banking Sector Agreement on international responsible business conduct regarding human rights'. The clients of BNG Bank operate in the Dutch public sector and in the housing, healthcare, education, energy, environment, mobility and networks sectors. Most of the loans (more than 90%) provided are issued to or guaranteed by government bodies. The CDD policy is aimed at proper knowledge and monitoring of clients, so as to prevent and counteract financial and economic crime. With this policy, the bank exercises its important gatekeeper function, which is meant to prevent tainted funds from entering the banking system.

The execution of payment transactions for clients of BNG Bank and the internal office automation have been outsourced to Centric FSS, the bank's main collaborative partner. The clients of BNG Bank operate in the Dutch public sector and in the housing, healthcare, education, energy, environment, mobility and networks sectors. BNG Bank expects its clients to comply with the laws and regulations applicable to them. The same also applies to the business partners that they work with in order to carry out their own activities.

The way in which BNG Bank respects human rights in the chain is set out in its Human Rights Policy. This policy identifies various manifestations of human rights violation as exclusion criteria. In this way, BNG Bank aims to prevent a situation in which the bank is associated with any human rights violations committed by its clients. In addition, BNG Bank has designated a number of sectors to which it does not provide services. Those sectors have been laid down in the Sustainability Policy. Effective from 2020, the Equator Principles are applied as a basis for monitoring and accountability for project financing.

GVB Amsterdam

GVB Amsterdam Public transport

Public transport provider of and for Amsterdam

7 AFFORDABLE AND CLEAN ENERGY

€ 200 million in financing for the replacement of and additional sustainability measures for tram systems, subway systems and electric buses

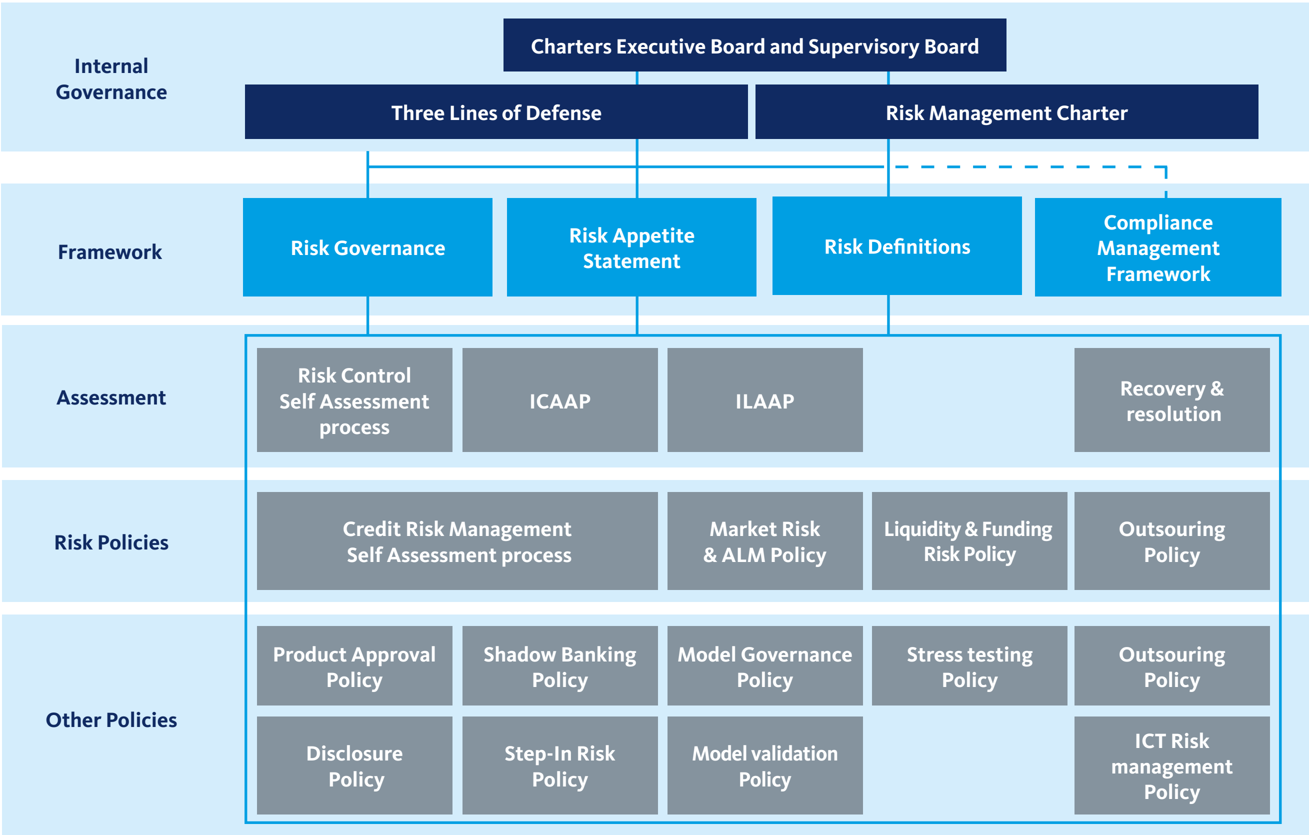
2.4 Risk management

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

The process of accepting and controlling risks is inherent to the day-to-day activities of any bank. In order to perform its activities, the bank must accept a particular level of credit, market, liquidity, operational and strategic risk. BNG Bank's risk management is focused on maintaining a safe risk profile. Its strict capitalisation policy, the restriction on services and counterparties as laid down in its Articles of Association and the fact that the bank does not have a trading book determine the scope, extent and sphere of the bank's risk appetite.

Risk Management Framework

The Internal Governance Framework (IGF) provides the basis for all decision making within BNG Bank. The IGF describes the 'Three Lines of Defence' model and the position occupied by risk management within this model. One element of the IGF is the Risk Management Framework (RMF), containing the overarching policy on general and specific risk-related subjects, such as risk governance, risk appetite framework and specific risks. The RMF is tailored to BNG Bank's specific company profile. Risk management activities have been integrated into all parts of the organisation where significant risks may arise. The ongoing risk management process comprises the identification, assessment, measurement, monitoring, reporting and adjusting the various types of risk.



Risk governance

BNG Bank's two-tier governance structure consists of a Supervisory Board and an Executive Board. The Supervisory Board approves the bank's Risk Appetite Statement (RAS) and checks whether the actual risk profile remains within the approved risk appetite. The Executive Board is responsible for drawing up the RAS and ensures that the bank's operating activities are carried out within the parameters of the risk appetite for the various risks. It does so through a number of risk-oriented Executive Board committees: the Asset & Liability Committee, the Credit Committee, the Capital Committee, the Financial Counterparties Committee and the Investment Committee. A description of the tasks and members of these committees is published on the website.

The following departments support the Executive Board in implementing the bank's risk policy:

- **Risk Management**: The Risk Management department qualifies, quantifies and monitors risks, and reports on these activities. The risks consist of credit risk, market risk, liquidity risk, operational risk and strategic risk. The department administers the risk policy documents and the RMF. The purpose, position and responsibilities of the function have been laid down in the Risk Management Charter. Risk Management is represented in the risk-oriented Executive Board committees and takes part in meetings of the Supervisory Board's Risk Committee.
- **Credit Risk Assessment**: The Credit Risk Assessment department provides independent assessments and advice on risks relating to credit proposals for clients and financial counterparties. The department participates in the formulation of policies with respect to credit risk. As part of the operational lending process, the department is represented in a number of risk-oriented Executive Board committees. In 2020, the bank decided to detach 'Financial Restructuring and Recovery' from Credit Risk Assessment and to assign this task to a separate

department. This involves the supervision, management and processing of non-performing loans and loans where a strong increase of credit risk is perceived. This department will fall under the CFO. The Credit Risk Assessment department is still positioned under the CRO. 2020 saw the implementation of the Credit Risk Assessment Framework (CRAF), which has improved the quality of our client risk assessment procedure.

- **Compliance**: The Compliance department is engaged in issues in connection with conduct and integrity. The duties, position and authorities of the compliance function have been laid down in the Compliance Charter. The Compliance Officer reports to the Executive Board and has a reporting line to the Supervisory Board.
- **Security**: The Security department provides support to the Executive Board and line management in order to safeguard the reliability and continuity of the business processes as well as to be in control of security risks. Security is involved in projects from a security perspective, including an information security perspective. The Corporate Information Security Officer (CISO) is positioned in the Processing directorate, with a direct reporting line to the CRO as well as the Executive Board in order to safeguard his independent second-line function. In 2020, as a member of the COVID-19 Crisis Management Team, the CISO advised the CRO on a weekly basis about possible security risks (cyber risks) arising from remote working, as well as about additional risk-reducing measures. In 2021, the Security department will be positioned directly under the CRO.
- **Internal Audit Department (IAD)**: The 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 duties, position and authorities of the IAD have been laid down in the Internal Audit Charter. The IAD functions as an independent entity within the bank and reports to the Executive Board. The IAD has a reporting line to the Supervisory Board. Effective from 1 January 2020, the department will focus on conducting operational audits pertaining to the third line, in accordance with the 'Three Lines of Defence' model.

Risk Appetite Framework

One element of the RMF is the Risk Appetite Framework (RAF). This framework covers policies, processes, controls, and systems for establishing, communicating and monitoring the bank's risk appetite. In addition, the RAF includes a Risk Appetite Statement (RAS), risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF.

The RAS is updated annually on the basis of external and internal developments. The risk appetite is cascaded into limits, targets and ratios for the various types of risk.These are subject to a monitoring programme to determine each quarter whether the bank remains within the limits of its risk appetite. The outcomes are reported to the Executive Board and the Supervisory Board. The report provides aggregated information derived from figures used for daily limit monitoring. As a result, the information conveyed to the Executive Board and the Supervisory Board is in line with the information used in the operational processes.

Risk Appetite Statement 2020

› Reputation & Brand

Indicator

Credit rating and other indicators

Qualitative description of risk appetite

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

Ambition

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

› Profitability

Indicator

Profitability

Qualitative description of risk appetite

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

Ambition

- Relatively stable annual results.
- Reasonable returns.

› Solvency

Indicator

Capital ratios

Qualitative description of risk appetite

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

Ambition

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

› Liquidity

Indicator

Liquidity ratios

Qualitative description of risk appetite

- Always be able to meet obligations in near term.
- Continuous access to money and capital markets.
- The capacity to generate liquidity is sufficient for any time horizon under stressed circumstances.
- Refinancing risk is limited adequately.

Ambition

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

In 2020, BNG Bank continued to operate within its risk appetite. Although internal limits were breached in a few cases, the risk positions concerned were soon restored to a level within the limit, or the limit structure was amended after due consideration. The overruns did not lead to financial losses or a capital shortage. In relation to its capital, the bank has met the legal supervision requirements, as well as its internal capital objectives. With regard to operational risk, BNG Bank remained within the internal norms for operational incidents. The updating of the RAS for 2021 did not result in significant changes. In 2020, the bank performed an assessment of the material risks and carried out a more extensive scenario analysis than before, partly for the purpose of the ICAAP process. The scenarios are discussed and approved by the relevant risk committees. A focus point for 2021 emerging from the material risks assessment is that greater consideration should be given to climate and environmental risks in the context of credit risk. This is in line with BNG Bank's new strategic ambitions.

Compliance Management Framework

A solid and trustworthy reputation is of vital importance to BNG Bank. Applicable laws and regulations have increased in number and are more often of a complex nature. Furthermore, the requirement of demonstrable compliance has grown in importance. This prompted the bank to develop a framework enabling it to manage future and current compliance risks effectively and efficiently. This Compliance Management Framework (CMF) has been operational since early 2020 and is an important instrument within the IGF. The CMF is in line with the main principles of the RMF that include risk categories and definitions, risk appetite and the risk management cycle. The laws and regulations applicable to the bank and its subsidiaries are classified into the following four main categories.

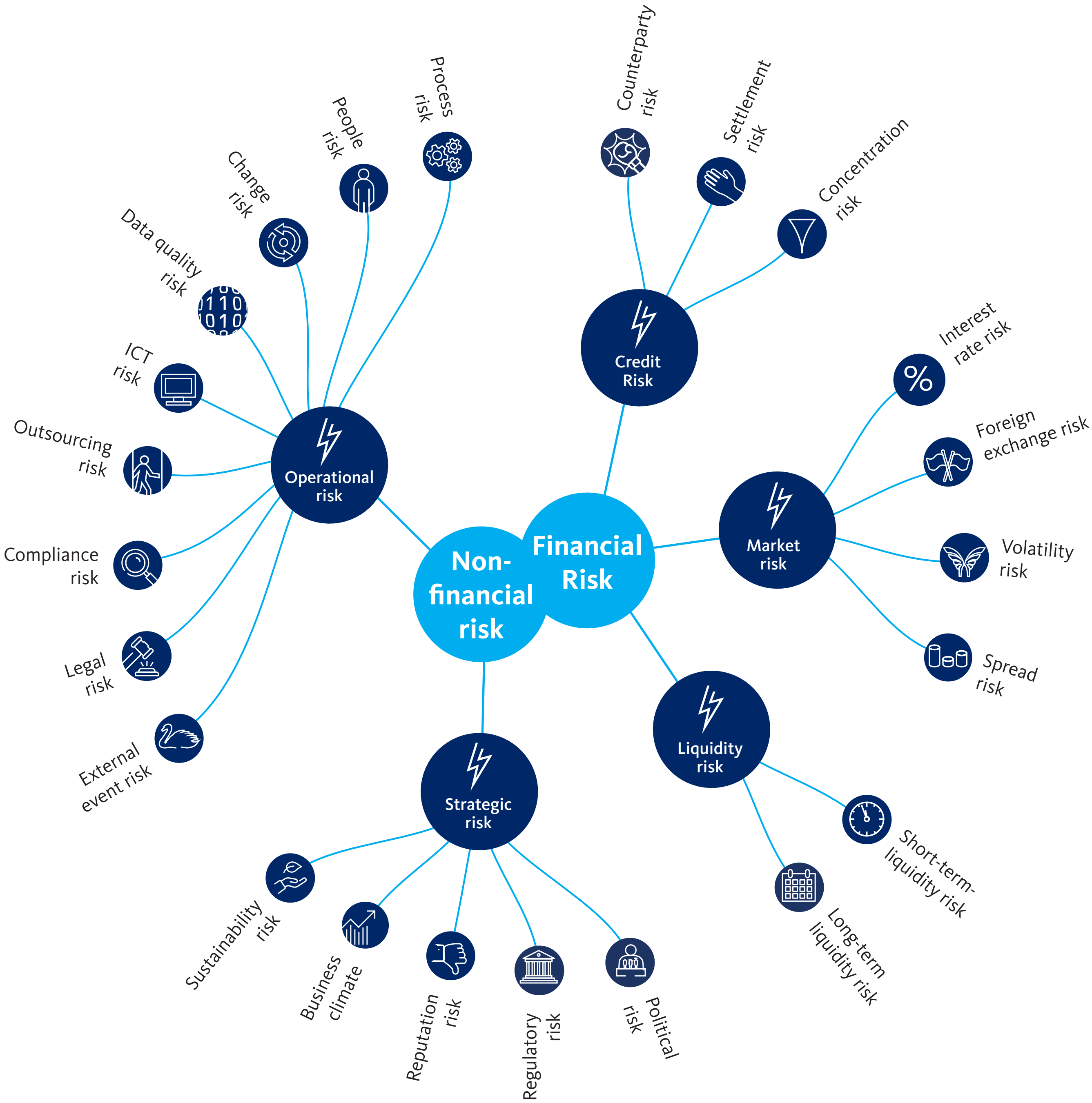
- Prudential: laws and regulations that relate to the solidity of the bank in order to safeguard financial stability.
- Financial markets: laws and regulations that focus on financial markets processes, relations between market parties and services to clients.
- Other: laws and regulations that are not part of the prudential or financial markets categories.
- Integrity: laws and regulations from the above categories that focus on the integrity of the organisation, employees, clients and/or markets.

Careful monitoring of regulatory developments in these four categories, and analysis of the impact of these developments on areas such as strategy, commercial activities and asset and liability management, are meant to safeguard the control of compliance risks. In addition, the CMF supports the correct implementation of laws and regulations.

Risk culture

BNG Bank is convinced of the importance of a proper risk culture within its organisation and endeavours to embed it in the internal control and risk management system. This is achieved by measures such as applying the 'Three Lines of Defence' model to the risk management cycle. The risk appetite is an important instrument in enhancing risk awareness and driving the desired risk behaviour. Also the RMF and associated documentation contribute to the knowledge, cooperation and execution of adequate risk management throughout the organisation.

Risks


Non-financial risk
Financial Risk
Operational risk
Process risk
People risk
Change risk
Data quality risk
ICT risk
Outsourcing risk
Compliance risk
Legal risk
External event risk
Strategic risk
Sustainability risk
Business climate
Reputation risk
Regulatory risk
Political risk
Credit Risk
Counterparty risk
Settlement risk
Concentration risk
Market risk
Interest rate risk
Foreign exchange risk
Volatility risk
Spread risk
Liquidity risk
Short-term-liquidity risk
Long-term liquidity risk

Specific risks

Credit risk

Credit risk is defined as an existing or future threat of loss of earnings or capital resulting from the potential risk that a borrower or a counterparty will fail to meet its obligations in accordance with the agreed terms. Credit risk comprises counterparty risk, settlement risk and concentration risk.

The COVID-19 pandemic did not lead to additional individual impairments in 2020. However, the stage-2 provisions increased on account of the more negative outlook for the economy. Obviously, it cannot be ruled out that COVID-19 will also affect the credit quality of BNG Bank's clients. The consequences of the pandemic are felt in the healthcare sector, among others, which faces rising costs of intensive care. The sector has been promised compensation for missed turnover and liquidity support, part of which has been provided. How this works out at the level of individual clients is not yet entirely clear. The public transportation saw a significant fall in earnings, while overheads remained high. The government has promised and partly paid compensation to parties in this sector as well. BNG Bank participated in the moratorium created by the banking sector, which provides for a six-month postponement of payment of interest and repayments in respect of loans not exceeding EUR 2.5 million. Only a limited number of clients took advantage of this scheme. The greater part of the deferred payments has been received by now.

Brexit is expected to have only a limited impact on the bank's business model. The bank's exposures in the United Kingdom are confined to a small number of loans in the public and private sectors, but these are of a high credit quality. However, the business volume with financial counterparties is substantial, given the bank's policy to hedge market risks on both sides of the balance sheet with derivatives. In preparation for a 'hard' Brexit, the bank concluded agreements with financial institutions in the European Union in respect of both hedging and clearing activities.

The percentage of BNG Bank's bad loans relative to the total loan portfolio is limited. Nevertheless, BNG Bank had to create a provision significant in historical terms in respect of financial year 2019. An independent investigation was carried out early in 2020 into the bank's credit risk control processes in that particular case, with the aim to obtain an independent picture of the structure of the bank's credit risk management and learn lessons from the case. The investigation produced a number of points for improvement, directed at improving insight into clients of the bank and early detection of any adverse developments. To this end, the bank is working on the improvement and monitoring of its credit risk control processes. Implementation has been scheduled for the first half of 2021. The risk assessment framework for loans not subject to solvency requirements has been extended. Although taking risks is part of a bank's core tasks and credit losses cannot be ruled out by any bank, these improvements are meant to reduce the chance of future credit losses even further.

Market risk

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

The COVID-19 pandemic initially had a major impact on the valuation of assets and liabilities, on account of higher credit spreads. The consequences for the income statement and capital were limited, however, because the balance sheet primarily contains instruments that are carried at amortised cost and are therefore not sensitive to market value fluctuations. The markets gradually returned to normal in the course of the year under the influence of large-scale stimulus packages of governments and central banks. This signaled the return of the credit spreads (including the spreads for funding). In a large number of cases, by the end of 2020 these credit spreads were once again comparable to those at the start of the year. All in all, the COVID-19 pandemic therefore had a limited effect on the market risk.

BNG Bank has a limited active interest rate position, which is offset against a benchmark. In the course of 2020, the interest rate position was gradually moved further towards the long-term benchmark. This was in response to the expectation that interest rates will fluctuate within narrow limits for the foreseeable future. In 2020, further preparations were made for the replacement of the Inter Bank Offer Rate (IBOR). The year 2020 saw the completion of the transition from EONIA to €STR, a challenge that required considerable efforts. Expectations are that the preparations for the future transition from EURIBOR to €STR will be completed in 2021. In 2020, the bank performed an assessment of the material risks and extended the scenario analysis for ICAAP purposes. The scenarios are discussed and approved by the relevant risk committees. This assessment revealed that greater consideration must be paid to climate risk in the lending process. This is in line with BNG Bank's new strategic ambitions.

Liquidity and refinancing risk

Liquidity and refinancing risk is defined as an existing or future threat to the institution's capital and earnings, preventing it from fulfilling its payment obligations without incurring unacceptable costs or losses. Short-term liquidity risk is the risk that the bank will not be able to attract sufficient funds to meet its payment obligations. Long-term liquidity risk (or refinancing risk) is the risk that the bank will not be able to attract any (or sufficient) funds on terms that would not jeopardise its continuity.

COVID-19 overshadowed numerous other economic and political factors which had previously affected the financial markets, such as Brexit and the escalation of international trade tensions. The outbreak caused high volatility in the financial markets and temporarily led to greatly reduced liquidity in the market for fixed-interest securities. Because of BNG Bank's ample liquidity position, this did not result in liquidity problems. At the start of the pandemic, the bank put the Contingency Funding Plan into operation, under which the Asset & Liability Committee, first on a daily basis and later on a weekly basis, discussed the current situation in the markets and the bank's position and decided on mitigation actions where necessary. In order to restore calm on the financial markets, the ECB maintained the policy interest rate at a historically low level in 2020 and extended its assets purchase programme. In addition, it took various measures to stimulate the real economy and temporarily relaxed the liquidity and capital requirements for banks.

Despite the volatile markets, the bank's funding position remained solid. The long-term funding volume target, as laid down in the Funding Plan, was adjusted after the outbreak of the pandemic, from EUR 15.5 billion to eventually EUR 21.0 billion. This was due to factors such as a higher than expected amount in new long-term loans granted, an increased level of cash collateral on account of the extremely low interest rate, and the bank attracting extra funding in order to ease the pressure on the money market. As the maturity of new long-term loans granted was longer than expected, the Asset & Liability Committee decided to increase the maturity of long-term funding accordingly. The short-term financing needs are met by the bank's ECP and USCP programmes.

Operational risk

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

The COVID-19 pandemic had a clear impact on the operational risks during the reporting year. Where process risk is concerned, this is reflected in the number of findings by the IAD, in the number of operational incidents and in project delays. In addition, consideration had to be given to the implementation of the new strategy, the proposed change to the bank's senior management structure and the tightening of the credit risk management in the context of operational risks. As regards the ICT risk, the performance of Centric FSS is an important factor, this being the bank's main outsourcing partner. The bank closely monitored the developments concerning Centric and will continue to do so in the future. The annual test of the bank's back-up systems revealed that these are sufficiently equipped to safeguard continuity of normal service provision in the event of emergencies. The bank's systems are tested for vulnerabilities each week and an ethical hack test is carried out annually. In 2020, the weekly tests did not reveal any high-risk vulnerabilities. The ethical hack test exposed a number of medium risks which were subsequently mitigated. All employees received information security training in the form of interactive information sessions and e-learning modules.

After the outbreak of the COVID-19 pandemic, the bank's Crisis Management Team decided to spread the organisation across two locations. At both locations there are teams that can carry out the bank's core processes.In addition, a structure has been put in place to enable employees to carry out the core processes from home. The risk analyses performed indicate that this can be realised in a responsible manner. The great majority of the bank's employees have been working from home since the end of March. Centric FSS has spread its operating activities for the bank across two locations as well. Activities performed for BNG Bank in relation to the IT infrastructure are carried out at several locations, while the employees can also perform them from their home situation.

In 2020, BNG Bank adjusted its CDD policy. Furthermore, the bank implemented a new Customer Relationship Management System that also supports the CDD processes. The system helps achieve a better data quality. Training sessions on the subject of unusual transactions improved employee awareness of money-laundering and terrorist financing. In addition, preparations were started for the introduction of a new transaction monitoring system. In order to reduce the risk of breaches of the privacy rules, the bank organised workshops on how to deal with personal data for the departments handling such data.

BNG Bank operates in a complex environment and is subject to national and international laws and regulations. Although the bank makes every effort to ensure compliance with all relevant laws and regulations, (human) compliance errors cannot be completely ruled out. Where applicable, these may result in sanctions or fines.

Strategic risk

Strategic risk is defined as an existing or future threat that strategic decisions of the institution itself could result in losses due to changes beyond the institution's control with regard to competitive position, political climate, regulatory developments, reputation and business climate. Apart from general strategic risks, strategic risk comprises reputational risk, political risk, regulatory risk, sustainability risk and business climate.

Strategic risks are driven by the external environment, which is evolving continuously. BNG Bank must respond to developments such as increased regulatory pressure and intensified supervision, as well as the effect of climate change on its client's creditworthiness and its own operations. In order to achieve its strategic ambitions and objectives, BNG Bank expanded its senior management structure with a Chief Operating Officer (COO) and a Chief Commercial Officer (CCO) (see the section Composition of the Executive Board and organisation).

The financial impact of the energy transition as part of the route to a sustainable society is still unclear. Despite this lack of clarity, the bank endeavours to give its activities maximum impact. Climate change, developments in 'clean' technology and public opinion may have an impact on clients' business models and the value of their assets, and thereby on the bank's risk profile. The regulators have published their expectations regarding the management of these risks. Laws and regulations are being prepared on ensuring the transparency and manageability of these risks. These laws and regulations will affect the strategic and risk management processes, internal governance and capital requirements. BNG Bank is closely monitoring these developments and foresees an extension of its risk management framework in respect of the sustainability risks relevant to the bank.

3 RESULTS AND OUTLOOK

3.1 Financial results

Result and return

BNG Bank is satisfied with the net profit of EUR 221 million recorded for the reporting year 2020. The return on equity of 5.2% is higher than the target of 3.7%. The 36% increase relative to the net profit for 2019 was caused primarily by the smaller addition to the bank's expected credit loss. The reduced creditworthiness of a specific customer was the main cause of the historically high non-recurring provision in 2019.

BNG Bank's interest result comprises EUR 477 million and exceeds both the interest result of 2019 (EUR 435 million) as well as the expectations at the beginning of the reporting year. The main reason for this increase is the favourable terms and conditions set by the ECB for participation in the TLTRO III funding. The bank's decision to invest its own funds again in full in its long-term loan portfolio resulted in a better return on equity. The increase in the long-term loan portfolio also contributed to the rise in the interest result. The restructuring of client portfolios and early repayments on long-term loans meant that the contribution of results on sales to the interest result was unexpectedly high at EUR 21 million. The commission result fell by EUR 5 million relative to 2019 to EUR 25 million, due to the decline in invoiced closing fees, which is in line with the decrease in turnover subject to solvency requirements.

The net result on financial transactions was EUR 17 million negative. The decrease by EUR 53 million relative to 2019 was due primarily to the COVID-19 pandemic. Among other things, this resulted in higher spreads for credit and liquidity risks of interest-bearing securities and loans. On balance, the effects on the revaluation of the credit component of the financial instruments in the financial assets balance sheet item at fair value through the income statement amounted to EUR 27 million negative. The other unrealised market value adjustments were EUR 29 million negative on balance, mainly due to the fall in long-term interest rates. The positive realised results in 2020 amounted to EUR 39 million, and are attributable in particular to the sale of interest-bearing securities from the bank's liquidity portfolio.

BNG Bank's consolidated operating expenses increased by EUR 17 million relative to 2019, to EUR 98 million. The staff costs went up because of the workforce growth, the decision to fill a relatively large number of vacancies by temporarily hiring external staff, and the addition to the staff provision. The costs of information technology increased due to matters such as the expenditure on facilitating home workspaces and investments in new systems in response to the COVID-19 pandemic. The hiring of external staff to improve the credit risk control management, the digital ambition and the adjustment of the strategy caused an increase in consultancy fees. The bank's contribution to the European Resolution Fund (EUR 8 million) and payment of the statutory bank levy (EUR 34 million) in 2020 were set in accordance with expectations.

In 2020, the bank's allowance for credit losses increased by EUR 15 million to EUR 220 million because of the deteriorating economic outlook due to the outbreak of the COVID-19 pandemic. Relative to the balance sheet total of around EUR 160 billion, the total expected credit losses remain low, reflecting the high creditworthiness of the bank's exposures. The effective tax burden for 2020 was upwards of 33%, at a nominal corporate income tax rate of 25%. The high tax burden was caused in particular by the minimum capital rule which became effective from this year. This lead to an additional tax expense of EUR 20 million in 2020, because not all interest expenses are tax deductible. The bank levy is not tax deductible either.

Relative to year-end 2019, the balance sheet total increased by EUR 10.7 billion to EUR 160.4 billion, mainly due to the fall in long-term interest rates. The item 'Loans and advances' increased on balance by EUR 0.6 billion, due to the growth of the long-term loan portfolio (EUR 1.8 billion) and the decrease in the short-term loans outstanding (down by EUR 1.2 billion).

BNG Bank's equity increased to EUR 5.1 billion in 2020, due to the net profit for 2020 and the ECB's guideline not to distribute any dividend in 2020 in connection with the uncertainties caused by the COVID-19 pandemic. The bank's risk-weighted solvency ratios remained at a high level. The Common Equity Tier 1 ratio and the Bank's Tier 1 ratio were 33% and 39% respectively at the end of 2020. Due to the increase in the balance sheet total, the bank's leverage ratio decreased by 0.1 percentage point to 3.5% compared with year-end 2019. As the ECB has designated the current market conditions as exceptional, banks are permitted to use the option of excluding all or part of the ECB balance when calculating the leverage ratio. The ECB's decision will apply until 27 June 2021. Thereafter, the CRR2 requirements for the leverage ratio will apply and the ECB may decide to extend the measure. BNG Bank makes use of this option. Without this option, the bank's leverage ratio would have been 3.4%, which is also above the bottom limit of 3.0%.

Lending and funding

At EUR 11.7 billion, the volume of new long-term lending in 2020 was significantly higher than expected. The demand for credit from local authorities in particular was higher than expected. At the other hand, the sale of shares in Eneco by various local authorities led to a structural fall in the average level of outstanding short-term loans in the second half of 2020.

As a result of the relatively high volume of new long-term lending, the long-term loan portfolio rose to EUR 86.0 billion, up EUR 1.8 billion relative to year-end 2019. The share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions amounted to 69%. As a result, the target of 55% was amply achieved. With a score of 93% at the end of 2020, the target that at least 90% of long-term loans in the balance sheet must qualify as promotional loans has also been met.

In 2020, the bank raised EUR 15.4 billion in long-term funding in 2020 by issuing bonds. In the second half of the year the bank issued two new SRI bonds in USD and EUR to the sum of 1 billion. The average credit spread above the swap rate in 2020 was higher than in previous years due to the outbreak of the COVID-19 pandemic and the relatively high average maturity of the funding raised. The bank's credit spread peaked in the first weeks of March when long-term funding was in fact unavailable. The credit spread then gradually fell again. At the end of 2020, this spread was at a similar level to that of the first few months of the year. BNG Bank's excellent creditworthiness meant that it was able to raise long-term funding at attractive rates throughout the year. Due to the favourable conditions, BNG Bank has decided to also take part in the ECB's TLTRO III. The aim is to stimulate the real economy by providing liquidity to specific target groups, including housing associations and care institutions.

Selected financial data

	2020	2019	2018	2017	2016
(in millions of euros)					
Balance sheet total	160,359	149,689	137,509	140,025	154,000
Long-term loan portfolio[1]	85,981	84,184	81,627	80,086	81,005
- of which granted to or guaranteed by public authorities	78,069	76,409	74,475	73,327	74,533
Shareholders' equity[2]	4,364	4,154	4,257	4,220	3,753
Hybrid capital	733	733	733	733	733
Equity per share (in euros)	78.36	74.59	76.45	75.79	67.39
Leverage ratio	3.5%	3.6%	3.8%	3.5%	3.0%
Common Equity Tier 1 ratio	33%	32%	32%	30%	26%
Tier 1 capital ratio	39%	38%	38%	37%	32%
Net profit	221	163	337	393	369
Net profit available to shareholders	202	142	318	318	365
Profit available to shareholders per share (in euros)	3.62	2.55	5.70	6.73	6.62
Proposed dividend	101	71	159	141	91
Dividend as a percentage of consolidated net profit	50%	50%	50%	37.5%	25%
Dividend per share (in euros)	1.81	1.27	2.85	2.53	1.64
SOCIAL					
Number of staff (in FTEs) at year-end	321	309	302	303	292[3]
Sickness absence	2.7%	3.6%	3.3%	3,0%[4]	3.4%
Funding raised by means of SRI bonds	2,185	1,934	1,190	1,383	1,560
ENVIRONMENT					
CO_2 emissions (total, in tonnes)[5]	221	377	453	515	540
Per FTE (in tonnes)	0.7	1.2	1.5	1.7	1.9

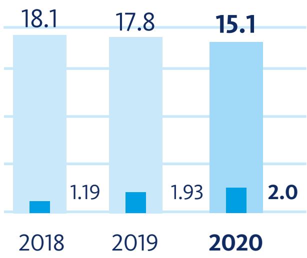
1 As of 2020, the long-term loan portfolio will be reported instead of the total loan portfolio. The figures a of 2016 included in this table relate to the long-term portfolio.
2 Equity excluding hybrid capital.
3 Starting in 2016, the FTE of positions for which a 40-hour working week has been agreed is determined on the basis of a 36-hour working week, resulting in > 1.1 FTE. The number of FTEs has consequently increased by more than 7.
4 The methodology used to measure sickness absence was changed in 2017. The figures for 2017 onwards are not directly comparable with those of previous years. For further details, see the section Reporting principles.
5 The conversion factors for the calculation of CO2 emissions have changed. The emissions for 2016 have been recalculated on the same basis. The figures for 2016 to 2018 inclusive are not directly comparable with those of previous years. For further details, see the section Reporting principles.

Payment of dividend for 2019

For the financial year 2019 a dividend of EUR 71 million was proposed to the General Meeting of Shareholders held in the first half of 2020. In advance of the meeting the ECB has recommended European Banks to refrain from, or postpone dividend payments to at least 31 October 2020. In the General Meeting BNG Bank has announced that the bank will follow ECB recommendations. In the summer of 2020 the ECB changed its recommendation to refraining from any dividend distribution until at least 31 December 2020. More recently, the ECB agreed on a payment in March 2021 for the amount equivalent to a decrease of the CET 1 ratio with 0.2%, which for BNG Bank amounts to EUR 24 million. Additional distributions of dividend will, following the ECB recommendation, not take place before October 2021. BNG Bank has the intention to make additional distributions of dividend, however the bank will need to take into account any future ECB recommendations.

Financial objectives for 2020	2020 results	2019 results
The return on equity is above the return criterion set by the Ministry of Finance: >3.7%	5.2%	3.6%
Moody's, S&P and Fitch external ratings are in line with the ratings of the State of the Netherlands	Achieved: Moody's: Aaa Standard & Poor's: AAA Fitch: AAA	Achieved: Moody's: Aaa Standard & Poor's: AAA Fitch: AAA
Leverage ratio ≥3.4%	3.5%	3.6%
Common Equity Tier 1 ratio ≥22%	33%	32%
Tier 1 ratio ≥24%	39%	38%
Costs within consolidated budget EUR 92 million	EUR 98 million	
Share of promotional loan in portfolio ≥90%	93%	93%
Growth of the loan portfolio compared with year-end 2019	Achieved.	Achieved.

Funding



(in EUR billions)

€ **15.4** billion

- Funding issued
- In SRI Bonds and Social Housing Bonds

AAA

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

Common equity Tier-1 ratio

2020	**33%**	50%
2019	32%	50%
2018	32%	50%

BNG Bank internal lower limit: 22%

Tier-1 ratio

2020	**39%**	50%
2019	38%	50%
2018	38%	50%

BNG Bank internal lower limit: 23%

Leverage ratio

2020	**3.5%**	5%
2019	3.6%	5%
2018	3.8%	5%

BNG Bank internal lower limit: 3,4%

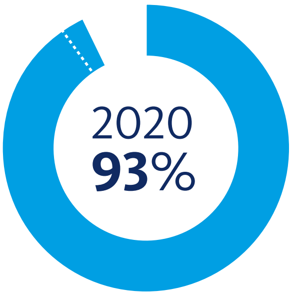
Credit lending

BNG Bank achieved positive results:

New long-term loan portfolio 2020

€ **11.7** billion

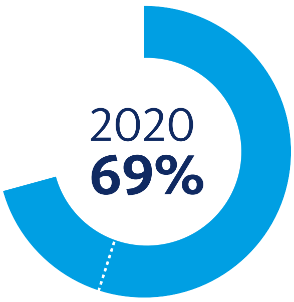
Share of promotional loans in portfolio



Share of promotional loans in portfolio ≥90%

Target 90%

Share of solvency-free long-term lending



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

Target 55%

Higher net profit in 2020

Net profit 2020

€ **221** million

Net profit 2019

€ 163 million

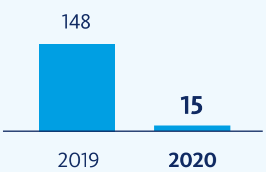
Return on owner’s equity

Return on owner’s equity is higher than the return criterion set by the Ministry of Finance:

Return criterion set by the Ministry of Finance: 3.7%

Factors which influence the net profit:

Lower additions to allowance for credit losses

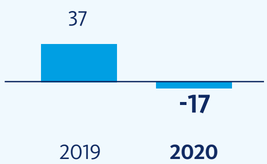


(in EUR million)

Cause

- Incidental individual provisions in 2019

Lower result financial transactions

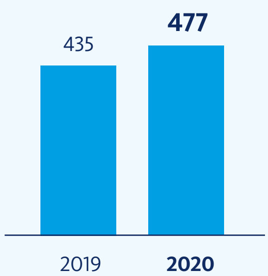


(in EUR million)

Cause

- Revaluation and lower interest rates

Higher interest results

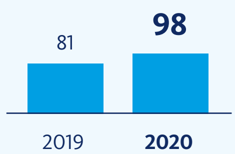


(in EUR million)

Cause

- Positive TLTRO conditions
- Increase in the portfolio volume

Increase in company expenses



(in EUR million)

Necessary investments

- Staff costs, IT costs due to COVID-19-pandemic, advisory costs for improvements such as process efficiency, digital ambition.

3.2 Outlook

Financial outlook

BNG Bank expects to grant EUR 11.5 billion in new long-term loans in 2021. Because at least 90% of the total loan portfolio must remain not subject to solvency requirements in order for the bank to retain its promotional lender status, the turnover subject to solvency requirements has been capped at EUR 1 billion for 2021. The total expected turnover is comparable with the turnover recorded in 2020, while the distribution among the client sectors is also expected to be comparable. The target volume is ambitious in light of the rising cost price and intensified competition.

In 2021, BNG Bank's funding policy will continue to be focused on ensuring permanent access to the money and capital markets for the terms and volumes required at the lowest possible rates. The bank expects to raise around EUR 15 billion in long-term funding in 2021 by issuing bonds. This amount may change in the course of the year if the bank should decide to give a different substance to its participation in TLTRO III. BNG Bank intends to issue at least two new SRI bonds also in 2021.

The bank's operating expenses are expected to increase to around EUR 106 million, mainly due to its hiring external staff for the credit risk control management because of the enhanced demands for lending not subject to solvency requirements and the change processes. In addition, the bank will incur costs for the preparation of the office building renovations and temporary accommodation. Incidental expenses are expected to amount to nearly EUR 7 million in 2021. The larger part of these expenses relates to hiring temporary staff to fill outstanding vacancies.

It has become clear from the tax section of the government's Budget Memorandum that the rate of the bank levy for 2021 will be increased (on a one-off basis) by 50% and that the corporate income tax rate will remain at 25%. This means that the reduction of this rate to 21.7% that had been promised previously will now definitely no longer go ahead. The Budget Memorandum provided confirmation that the hybrid capital payments are deductible again. This followed a decision of the Supreme Court of the Netherlands on this in May 2020. In response to this, the minimum capital rule was made more onerous. Hybrid capital is no longer included in the calculation of the leverage ratio for tax purposes and the lower limit has been increased from 8% to 9%. This will also lead to an increase in the bank's tax expense in 2021. The effect of these tax increases on the net profit in 2021 is expected to be approximately EUR 40 million.

The net contribution to the resolution levy is expected to be very limited in 2021, owing to an expected refund following the opportunity to adjust its statement for 2016. The bank levy is expected to be EUR 54 million.

BNG Bank's interest result for 2021 is expected to be within a range of EUR 390 million to EUR 460 million. This is a wide range, because the interest result will depend on participation in TLTRO III in 2021 as well. The decrease in the interest result relative to 2020 is caused primarily by the decrease in the return on the bank's own funds, due to the persistently low interest rates.

BNG Bank aims to achieve a return on equity of at least 3.7% in 2021. However, the level of the net profit is shrouded in uncertainty, because it is impossible to make any reliable forecast about the changes to the level of the expected credit loss provision and the development of the unrealised fair value adjustments. As a consequence, the bank is not able to make a more precise estimation of the 2021 net profit.

Objectives for 2021
Giving demonstrable substance to BNG Bank's purpose by measuring and reporting on the social impact in terms of SDG 3 (good health and well-being), SDG 4 (quality education), SDG 7 (affordable and renewable energy) and SDG 11 (sustainable cities and communities) and return.
Maintaining the position of market leader in the public sector.
Providing reliable, efficient and high-quality existing services and products.
Increasing the ease with which clients can use the services.
A comprehensive HR strategy that is service-oriented and supports BNG Bank's purpose, core values and strategies.
Reduction in CO_2 emissions of loan portfolio relative to the 2020 measurement.
Reduction in CO_2 emissions of BNG Bank relative to the 2020 measurement.
Giving substance to BNG Bank's gatekeeper function by: - strengthening the risk culture within the organisation by providing awareness training in respect of the gatekeeper function and measuring the effectiveness of this training; and - tightening the requirements made with regard to counterparty integrity and introducing appropriate control measures that ensure effective enforcement of these tightened norms.

Activite, Alphen aan den Rijn

Care apartments where living pleasure is most important

85 care apartments, including **8 for temporary care**

3 GOOD HEALTH AND WELL-BEING

With GP practice, pharmacy, home care support centre and community centre

4 GOVERNANCE

4.1 Corporate structure

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

Business model

BNG Bank is a statutory two-tier public limited company under Dutch law. Founded as Gemeentelijke Credietbank N.V., following several earlier name changes the formal name of N.V. Bank Nederlandse Gemeenten was changed to BNG Bank N.V. in 2018. The bank provides all of its services under this name. BNG Bank shareholders are Dutch public authorities exclusively. Half of the bank's share capital is held by municipal authorities, provincial authorities and a water board. The other half of the share capital is held by the Dutch State. The bank receives no financial assistance or benefit from the government. BNG Bank is a bank of national systemic importance under the direct supervision of the ECB and its balance sheet total makes it the fourth-largest bank in the Netherlands. BNG Bank has one branch in The Hague from where all its activities take place. There were no significant changes regarding the bank's size, structure, ownership or supply chain in 2020.

History

The history of BNG Bank starts in the early 20th century: a period of significant poverty in which social issues dominated discourse. It was during this period that the Vereniging van Nederlandsche Gemeenten (VNG; Association of Dutch Municipalities) was set up, which in turn led to the establishment of the Gemeentelijke Credietbank in 1914. The Gemeentelijke Credietbank provided municipalities with financial support, thereby contributing to the resolution of social issues. The Gemeentelijke Credietbank is now called BNG Bank, and the purpose remains the same.

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

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

Governance structure

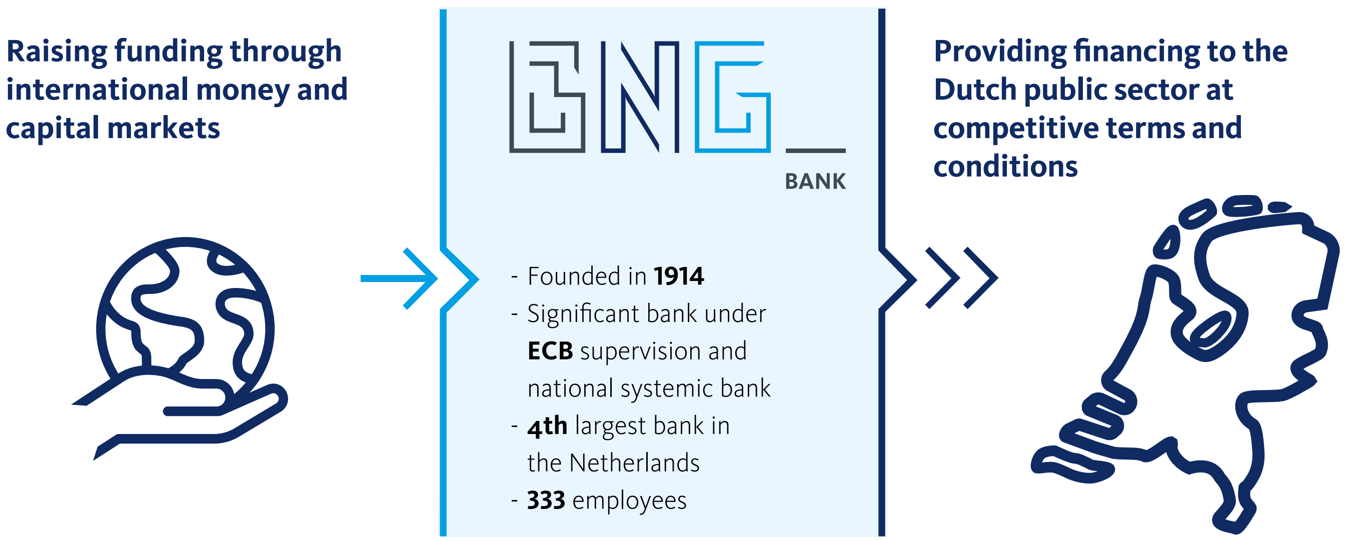
BNG Bank has a two-tier governance structure consisting of a Supervisory Board and an Executive Board. The Supervisory Board's task is to monitor the policy of the Executive Board and the general course of affairs in the company and its affiliated enterprise. The members of the Supervisory Board are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

The Executive Board is charged with the day-to-day management of BNG Bank. The Executive Board consists of three members, including a Chair. The Chair and other members of the Executive Board are appointed and dismissed by the Supervisory Board. Members of the Executive Board are appointed for a period of four years, after which they can be reappointed by the Supervisory Board no more than twice for additional periods not exceeding four years at a time. The Supervisory Board assesses the performance of the Executive Board each year. The Executive Board has allocated its duties in such a way that individual members are given responsibility for specific components of the Executive Board's management duties.

Stakeholders

BNG Bank's principal stakeholders are clients, investors, shareholders and employees. BNG Bank

BUSINESS MODEL



invests in long-term relationships with its stakeholders through regular dialogue with them by way of consultations, regional and sectoral meetings and surveys. This dialogue with stakeholders provides the bank with a picture of stakeholders' expectations and the value the bank can create for them. Stakeholders' responses are used to improve products, services and processes.

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

Reputation survey

A reputation survey conducted in 2019 among shareholders, clients, public authorities, regulators and media contacts provided the bank with insight into the strengths and blind spots of the organisation. BNG Bank rates well among all groups, especially on the aspects of 'relationship', 'performance' and 'sustainability'. BNG Bank is viewed as a solid and reliable partner. The bank is financially sound and its stakeholders experience good, constructive cooperation. Clients consider the relative certainty and simplicity with which BNG Bank can provide financing as a strong feature of the bank. In addition, personal contacts are perceived as added value and some clients want to step up cooperation, where possible. Based on the findings of the reputation survey, BNG Bank has formulated several points for improvement, including frequent and proactive contact with clients and providing clarity on the types of projects BNG Bank finances. The points for improvement are set out in the updated strategy.

Subsidiaries and participations

BNG Gebiedsontwikkeling B.V. is a BNG Bank subsidiary and specialises in risk-based participation in land development, process design and process guidance for municipalities and other public or semi-public organisations. The Supervisory Board of BNG Gebiedsontwikkeling and the Executive Board of BNG Bank made a decision in March 2018 not to start any new activities or projects within BNG Gebiedsontwikkeling as well as to complete the projects within the existing portfolio in the next few years.

Hypotheekfonds voor Overheidspersoneel B.V. is the second subsidiary of BNG Bank. Hypotheekfonds voor Overheidspersoneel used to issue mortgages for public sector employees. It was decided to discontinue this product and to accept no new clients from 2013.

Hypotheekfonds voor Overheidspersoneel has no employees.

BNG Bank has a participating interest in Dataland B.V., a municipal non-profit initiative with activities that lead to the broad accessibility of all possible data concerning registered property from the information domain of municipalities and/or other public bodies. BNG Bank has a second participating interest in Data B Mailservice Holding B.V. This company provides print and mail services and services relating to payment transactions, direct marketing and message traffic, among others to government institutions.

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

4.2 Composition of the Executive Board and organisation

Name	Gender	Year of Birth	Nationality	Date of first appointment	Last year reappointment
Gita Salden	F	1968	NL	01-01-2018	-
Olivier Labe	M	1969	F/NL	01-05-2015	01-05-2019
John Reichardt	M	1958	NL	15-10-2008	15-10-2016

Gita Salden, CEO

Gita Salden, Chair, is responsible for public finance/credit lending, marketing and communications, development of the organization and staff policy, the internal audit department, strategy and secretariat of the Executive Board and economic research. She is also responsible for the general coordination and relations with stakeholders. She is Chair of the Executive Board and the Management Meetings.

In relation to her position at the BNG Bank, she is Executive Board Member of the Nederlandse Vereniging van Banken (Dutch Banking Association, NVB).

Olivier Labe, CFO

Olivier Labe, CFO, is responsible for financial reporting, financial markets and treasury, asset & liability management, capital management, investor relations, legal and fiscal affairs and sustainability. He is Chair of the Committee for Capital Policy and Financial Law, the Investment Committee and the Sustainability Advisory Group.

In relation to his position at the BNG Bank, he is Chair of the Supervisory Board of the Hypotheekfonds voor Overheidspersoneel B.V., a subsidiary of the BNG Bank, and member of the Supervisory Board of the Stichting BNG Duurzaamheidsfonds. He is also member of the Supervisory Board of ASR Vermogensbeheer N.V. and member of the Advisory Board of the Economics and Business Faculty of the University of Amsterdam.

John Reichardt, CRO

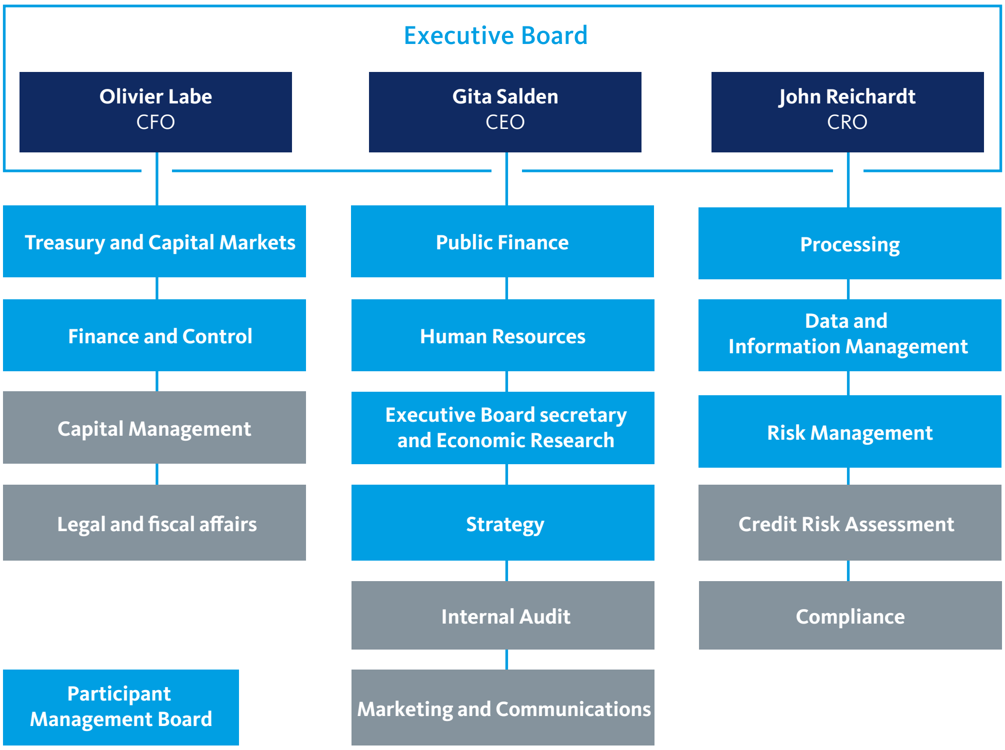
John Reichardt, CRO, is responsible for compliance, risk management, external oversight (ECB, DNB and AFM), processing and data and information management.

In relation to his position at the BNG Bank, he is Chair of the Supervisory Board of BNG Gebiedsontwikkeling B.V., member of the Supervisory Board of the Hypotheekfonds voor Overheidspersoneel B.V., Chair of the Supervisory Board of Data B. Mailservice Holding B.V. and member of the Committee Supervisory Affairs of the NVB.

Management Board

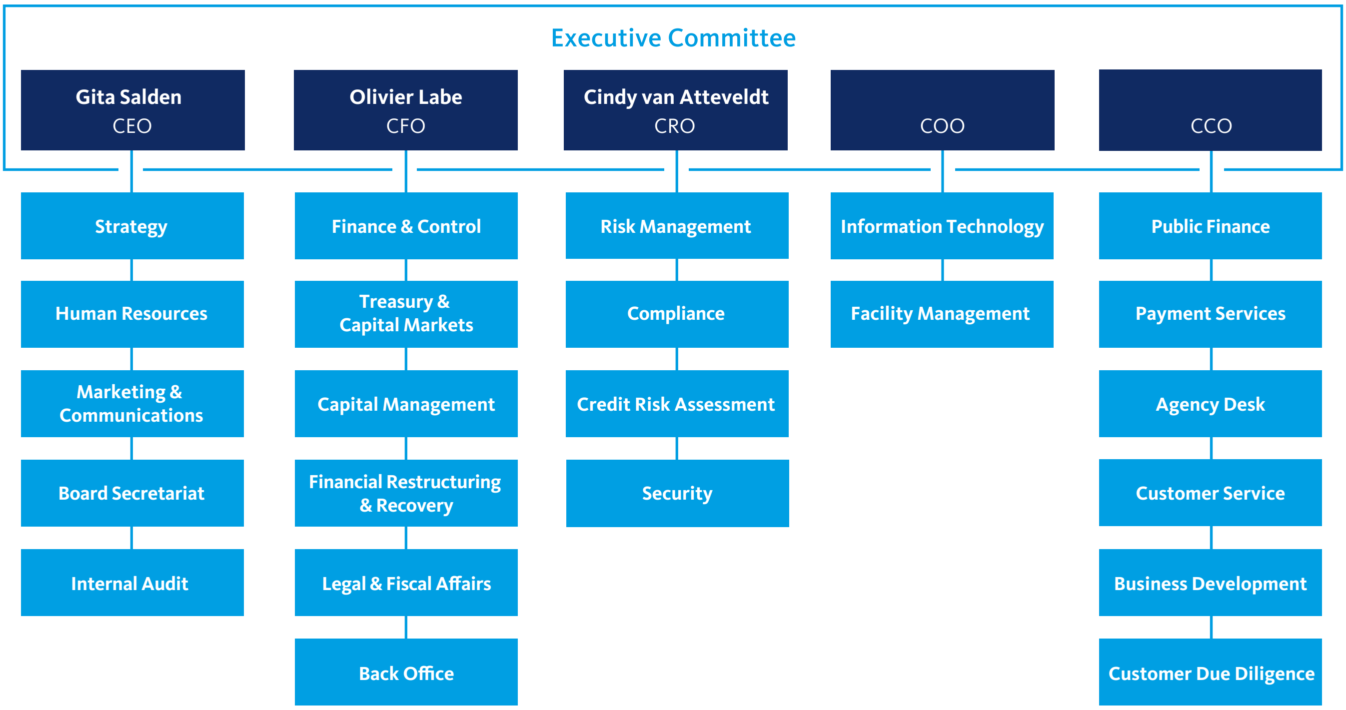
In addition to the Executive Board members, there are nine senior managers on the Management Board. The Executive Board members have formal authority to make decisions and the remaining members may give an advisory opinion. The Management Board focuses on defining and adopting the organisational policy within the framework of the company's strategy and strategic objective, defining and adopting as well as monitoring the commercial policy within the restrictions imposed by capital allocation in connection with solvency limits, and managing the general course of affairs and projects.

The following organisation chart shows the structure of the organisation and indicates the Management Board members. There are also Executive Board committees that advise and assist the Executive Board in its tasks. A description of the tasks and members of these committees is published on the website.



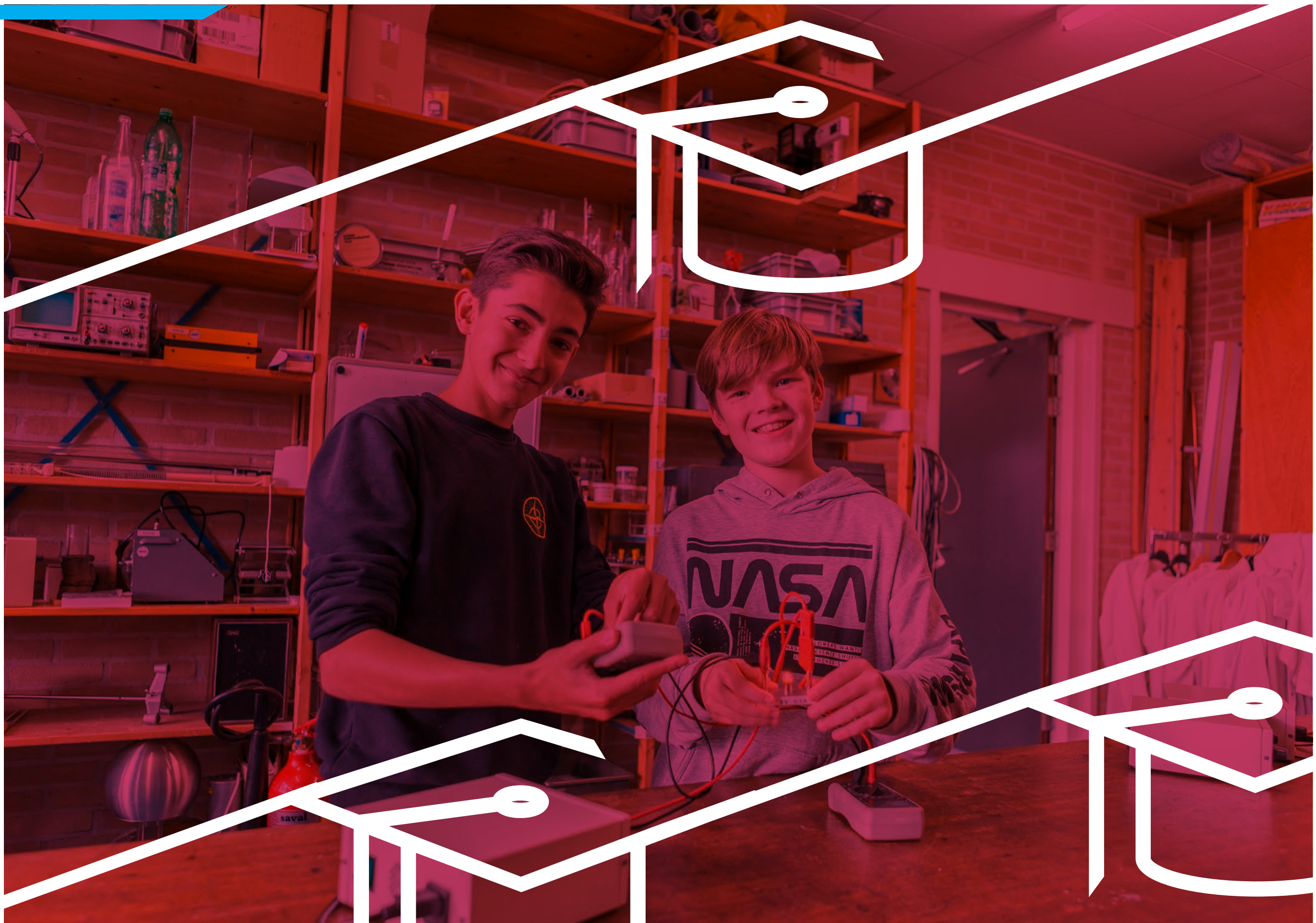
On 15 February 2021, Cindy van Atteveldt (1972) was appointed CRO of BNG Bank as successor to John Reichardt . She has almost 25 years of experience in the banking sector.

A new senior management structure will be introduced on 1 March 2021, namely an Executive Committee comprising five board members. The Executive Committee replaces the Executive Board and the Management Board. In order to implement the key objectives of 'focus' and 'client partnership' as incorporated in the updated strategy, a Chief Commercial Officer will be appointed to direct client-related commercial activities at management level. A Chief Operating Officer will be appointed due to the importance of having sufficient expertise and of directing information technology at management level, including operational activities, data management and governance. The portfolios have been redistributed at management level in order to fully implement the Three Lines of Defence model. The Executive Committee will comprise Gita Salden (CEO), Olivier Labe (CFO), Cindy van Atteveldt (CRO), a Chief Operating Officer and a yet-to-be-hired Chief Commercial Officer. The new organisation chart is shown in the figure below.



Management cycle

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



Reggesteyn, Hellendoorn

New energy-efficient school

€ 25 million in financing for new buildings

4 QUALITY EDUCATION

Broad range of education: prevocational secondary education to gymnasium

5 CORPORATE GOVERNANCE STATEMENT

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

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

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

Declaration of responsibility

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

The Hague, 12 March 2021

Executive Board
Gita Salden, Chief Executive Officer
Olivier Labe
Cindy van Atteveldt-Machielsen

Trudo, Eindhoven

Vertical forest on Strijp-S

2 residential towers for social housing rentals

Co-financing of new buildings

11 SUSTAINABLE CITIES AND COMMUNITIES

6 REPORT OF THE SUPERVISORY BOARD

6.1 Foreword

For everyone, the year 2020 was dominated by the COVID-19 pandemic. For BNG Bank, this was no different. The pandemic had a huge impact on the operations of the bank. In March, BNG Bank was forced to rapidly make the switch to working from home. Many of the bank's employees have been working from home since then. Despite the speed at which this had to be organised, the processes continued to work well and the bank remained able to provide a high level of service to its clients. The Supervisory Board greatly appreciates this fast changeover and the flexibility of the bank's employees.

The COVID-19 pandemic also had an impact on the bank's clients. The Supervisory Board regularly consulted with the Executive Board on developments during the pandemic in 2020. Discussions focused on the continuity of the bank's services, with the aim of supporting clients through this difficult period. From the start of the pandemic, BNG Bank maintained sufficient access to the capital markets and the bank had sufficient liquidity to provide clients with financing throughout.

In response to the COVID-19 pandemic, the ECB explicitly advised banks to defer their dividend distributions for 2019 or cancel them entirely. As it was clear that the ECB did not wish to make any exceptions for 'promotional banks', the Supervisory Board and the Executive Board decided to comply with the advice of the ECB.

Beyond the COVID-19 pandemic as well, 2020 was a tense year for BNG Bank. BNG Bank had to recognise a historically significant provision for the 2019 financial year. From the moment the developments regarding the client in question became clear, the Supervisory Board closely monitored the process that resulted in this provision. The Supervisory Board commissioned an independent analysis of the bank's credit risk control processes in the relevant case. The aim was to learn lessons from the case, and to obtain an independent view on the design of the bank's credit risk management. Along with other investigations, this prompted BNG Bank to improve its internal credit processes. Although taking risks is one of a bank's core tasks and no bank can exclude the possibility of credit losses, these improvements should further reduce the likelihood of credit losses in the future.

BNG Bank also revised its strategy in the reporting year. The Supervisory Board was closely involved in this process: throughout the year the Supervisory Board regularly consulted with the Executive Board on the development and content of 'Our Road to Impact', the name of the updated strategy. Based on its purpose and strategy, BNG Bank is committed to acting as a partner for the public sector and enhancing its social impact in the context of four selected Sustainable Development Goals. Changes are also being made within the organisation in line with the strategy. The Supervisory Board and the Executive Board have decided to change the senior management structure of BNG Bank. A decisive management body will be created in the form of a five-member Executive

Committee. Finally, following close consultation with John Reichardt, the Supervisory Board has decided to look for a new CRO. After serving three four-year terms as a member of the Executive Board, this was an appropriate time to start looking for a successor. A new CRO has now been identified in the form of Cindy van Atteveldt, who has extensive experience in the banking sector. The Supervisory Board thanks John for the major role he has played for BNG Bank and is grateful for his willingness to continue in his role until his successor was appointed.

The developments within BNG Bank will continue at a rapid pace in 2021. The Supervisory Board looks forward to working with the Executive Committee and the employees to further enhance the social impact of BNG Bank in the years ahead.

This is my last foreword as Chair of the Supervisory Board. In my nearly nine years as member of the Supervisory Board, over five of which as Chair, I have witnessed BNG Bank sustain its development as a professional and reliable partner, and financier of organisations in the public and semi-public sector, that is deservedly considered a 'systemically important financial institution' by the ECB. I wish to thank all of the bank's employees for their contribution to this achievement. I have full confidence in handing over chairmanship to Huub Arendse, who will become the Chair of the Supervisory Board at the end of the General Meeting of Shareholders 2021, and I wish him every success in his new role.

On behalf of the Supervisory Board,
Marjanne Sint,
Chair of the Supervisory Board

The Hague, 12 March 2021

6.2 Composition of the Supervisory Board and Committees

The composition of the Supervisory Board in 2020 is shown in the following table. In accordance with the Articles of Association and the Corporate Governance Code, Supervisory Board members are eligible for reappointment for a period of four years in the first General Meeting of Shareholders to be held after a period of four years has elapsed since the first appointment. Supervisory Board members may then, under special circumstances, be reappointed for a two-year term of office, which may be extended for a maximum period of two years. There were no changes in the composition of the Supervisory Board in 2020.

At the end of the General Meeting of Shareholders in 2021 Jantine Kriens will step down as Supervisory Board member, and Marjanne Sint will step down as Supervisory Board member and chair. The Supervisory Board wishes to thank them for their valuable contribution to the Supervisory Board over the years. Huub Arendse will become Chair of the Supervisory Board at the end of the General Meeting of Shareholders in 2021.

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

A total of seven regular Supervisory Board meetings were held in 2020. Besides, anumber of extraordinary meetings took place. The attendance rate for regular Supervisory Board meetings in 2020 was 98% and for all Supervisory Board meetings 95% (2019: 96%). In addition, the Audit Committee met four times, the Risk Committee met five times, the HR Committee met four times and the Remuneration Committee met once. The attendance rate at the meetings of the committees in 2020 was 93% (2019: 100%). The attendance rate for all meetings in 2020 was 95% (2019: 98%).

Composition of the Supervisory Board and Committees

Name	Gender	Year of birth	Nationality	Date of first appointment	End of first term	End of second term
Marjanne Sint Chair	F	1949	NL	20-08-2012		2021
Jan van Rutte Vice-Chair	M	1950	NL	23-11-2015		2024
Huub Arendse	M	1958	NL	18-04-2019	2023	
Kees Beuving	M	1951	NL	24-04-2014		2022
Johan Conijn	M	1950	NL	01-01-2016		2024
Marlies van Elst	F	1966	NL	19-04-2018	2022	
Jantine Kriens	F	1953	NL	24-02-2014		2022

Marjanne Sint, Chair

Marjanne Sint was formerly Chair of the Executive Board of the Isala Clinic in Zwolle. She is Chair of the Supervisory Board of PGGM and Supervisory Board member of Bergman Clinics.

Jan van Rutte, Vice-Chair

Jan van Rutte was formerly Chair of the Executive Board of Fortis Bank Nederland and CFO in the Executive Board of the ABN AMRO Group. He is Chair of the Supervisory Board of the Volksbank and member of the Supervisory Board of ORMIT and PGGM.

Huub Arendse

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

Kees Beuving

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

Johan Conijn

Marlies van Elst

Jantine Kriens

Johan Conijn was professor by special appointment Housing Market at the University of Amsterdam. He is Director and Advisor of Housing Corporations at Finance Ideas. He is also member of the Investment Committee of Amvest Residential Core Fund.

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

Jantine Kriens was General Director of the VNG. She is member of the Supervisory Board of Vestia and the Supervisory Board of HVC.

Composition of the Executive Board Committees and attendance

Supervisory Board member	Supervisory Board Meetings	Audit Committee meetings	Risk Committee meetings	HR Committee meetings	Remuneration Committee meetings	%
Marjanne Sint	100% **Chair**		100%	100% **Chair**	100%	100%
Jan van Rutte	95%	100%				96%
Huub Arendse	100%	100% **Chair**	100%			100%
Kees Beuving	95%	100%		75%	100% **Chair**	93%
Johan Conijn	89%		100% **Chair**			92%
Marlies van Elst	95%		100%			96%
Jantine Kriens	95%			75%	0%	88%
Total	**95%**	**100%**	**100%**	**83%**	**67%**	**95%**

6.3 Activities of the Supervisory Board

The Supervisory Board monitors the policy of the Executive Board, the way in which the latter implements the strategy and the general course of affairs in the company.

The Supervisory Board also focuses on the effectiveness of the internal risk management and control systems as well as the integrity and quality of the financial reporting. Depending on the topic of discussion, the Supervisory Board plays a role as sparring partner, a supervisory role or an employer role.

Meetings and subjects discussed

The Supervisory Board held seven regular meetings in 2020. A number of extraordinary meetings also took place on specific matters. Due to the COVID-19 pandemic the Supervisory Board switched to video conferences.

The regular meetings of the Supervisory Board are also attended by Executive Board members and, upon invitation, the external auditor. A private session, which is only attended by members of the Supervisory Board, is held prior to each Supervisory Board meeting. In the Supervisory Board meetings, a written and oral report is presented of the Committee meetings, which are held one week prior to the regular meetings of the Supervisory Board. Meeting documents of the Committees that are of relevance to the Supervisory Board are also listed on the agenda of the Supervisory Board meetings. Where the approval of the Supervisory Board is required, the Committee concerned gives advice to the Supervisory Board.

In 2020 the Supervisory Board placed a special focus on a number of topics alongside the regular subjects. BNG Bank had to realize a historically significant provision for the 2019 financial year. From the moment the developments regarding the client in question became clear, the Supervisory Board closely monitored the process that resulted in this provision. In this context, the question was also raised as to whether there may be similar cases within the bank. No such similar cases were found. In addition, the Supervisory Board commissioned an independent analysis of the lending and credit risk monitoring process for the client in question and for the portfolio subject to solvency requirements in a broader sense. This analysis also looked at the lessons that could be learned from the situation. Further to this and other research, a programme was set up within BNG Bank to examine and improve all internal credit processes. The Supervisory Board was informed about the developments within this programme during its regular meetings.

The COVID-19 pandemic was also a key focus for the Supervisory Board in 2020. The Supervisory Board discussed the impact of the pandemic on the financial markets, the clients and the operations of BNG Bank. In March, the COVID-19 pandemic prompted the ECB to very strongly recommend that dividend distributions for 2019 be cancelled or suspended. The Supervisory Board agreed with the Executive Board's decision to suspend the dividend distribution further to this recommendation. In September and December 2020, the Supervisory Board consulted with the Executive Board regarding the ECB's follow-up recommendations on dividend distributions.

The Supervisory Board was involved in the strategy process within BNG Bank throughout 2020. The outline for the process was initially explained in January. In April, the Supervisory Board exchanged ideas on the approach to the strategy process during an informal meeting with the Executive Board. The strategy process subsequently became a permanent item on the agenda of the regular Supervisory Board meetings. The Supervisory Board voiced its agreement with the decision to work on the basis of a purpose, and advised on the content and the implementation of 'Our Road to Impact'. The strategy process also led to a number of changes in the organisational structure, including the introduction of an Executive Committee to replace the Executive Board and the Management Board. The Supervisory Board agreed to this change in the senior management structure.

The Supervisory Board has been working on filling the vacancy created by the departure of John Reichardt as CRO, as well as the vacancies arising from the formation of the Executive Committee. Vacancies will also arise within the Supervisory Board when Marjanne Sint and Jantine Kriens step down with effect from the General Meeting of Shareholders in 2021. Candidates meeting the set requirements have been found for these vacancies. Finally, in 2020 the Supervisory Board monitored the developments concerning Centric FSS, the bank's main outsourcing partner.

Permanent education

Supervisory Board and Executive Board members complete a permanent education (PE) programme each year. A total of three PE sessions took place in 2020. Two of these sessions were deep dive sessions on issues that are important within BNG Bank. These sessions looked at the underlying assumptions in the ICAAP and the ILAAP and the benchmark transition to €STR. In these sessions, specialists from BNG Bank provided the Supervisory Board with insight into the manner in which BNG Bank is preparing in these areas. Next to this, a session took place with the Social Housing Guarantee Fund (WSW: Waarborgfonds Sociale Woningbouw). During this session, the Supervisory Board consulted with the WSW on the developments in the guarantee system for the social rented housing sector.

Evaluation of the Supervisory Board and the Executive Board

In accordance with the Dutch Banking Code and Corporate Governance Code, the Supervisory Board discusses its own performance once a year. This takes place under independent supervision once every three years. The Supervisory Board's evaluation was supervised by an external party in 2019. The Supervisory Board discussed the outcome of this evaluation in 2020, as well as reflecting on its role in response to the process prior to the significant provision realized for 2019. The Supervisory Board aims to focus more on the bank's primary processes and on client developments in future meetings. The Supervisory Board also aims to more explicitly take on the role of 'sparring partner' to the Executive Board. The Supervisory Board discussed the outcome of the self-evaluation with the Executive Board, which included agreeing that it will no longer be the case that all of the members of the Executive Committee currently being assembled will attend all of the Supervisory Board committee meetings as standard procedure.

A 360-degree evaluation of the members of the Executive Board was performed in 2020. With effect from 2018, the Supervisory Board decided to evaluate all members of the Executive Board on the basis of several objectives for the Executive Board as a collective body and on a number of individual objectives. In the opinion of the Supervisory Board, the evaluation of the Executive Board resulted in a positive outcome.

Contacts with stakeholders

The Supervisory Board maintains contacts with other stakeholders including the Works Council, clients, shareholders, the external regulator, the external auditor and management, as well as other parties. Members of the Supervisory Board attended three consultative meetings with the Works Council in 2020. The Supervisory Board sees the contacts with the Works Council as constructive, and appreciates the transparency and constructive dialogue between the Supervisory Board, the Executive Board and the Works Council.

The contacts with the shareholders are conducted in part via the General Meeting of Shareholders, in which the Supervisory Board renders account for its supervision. The annual General Meeting of Shareholders was held on 16 April 2020. The items on the agenda concerned the approval of the financial statements, the approval of the proposed dividend, the grant of discharge to each of the Executive Board and Supervisory Board members for their duties during the financial year and the reappointment of Jan van Rutte and Johan Conijn as Supervisory Board members. All the items on the agenda requiring approval were approved by the General Meeting of Shareholders. Discussions were also held on a quarterly basis between the Ministry of Finance, BNG Bank's primary shareholder, and the Chair of the Supervisory Board. The chairs of the Supervisory Board, the Audit Committee and the Risk Committee each hold annual consultations with the external regulator. Members of the Supervisory Board also keep in touch with managers of BNG Bank. Where relevant, managers attend specific agenda items of the meetings of the Supervisory Board and the Committees and/or hold presentations. Lastly, the Supervisory Board maintains regular contacts with the external auditor as well as the Internal Audit Department (IAD), while the Supervisory Board also oversees the performance of the external auditor. In the Supervisory Board's opinion, no situations occurred in 2020 that involved conflicting interests on the part of Executive Board members, Supervisory Board members, shareholders and/or the external auditor which were of material significance to the company and/or the relevant Executive Board members, Supervisory Board members, shareholders and/or the external auditor.

6.4 Activities of the Supervisory Board committees

The four Supervisory Board committees support the Supervisory Board in monitoring the activities of the Executive Board, prepare decision-making by the Supervisory Board and advise it on a variety of subjects.

Each committee has its own regulations. In principle, the committees meet one week before a regular Supervisory Board meeting.

Audit Committee

The Audit Committee prepares decision-making on financial reports, internal control systems, internal audit and the external auditor for the Executive Board. In addition to Audit Committee members, its meetings are also attended by the Executive Board members, the head of the Internal Audit Department (IAD), the head of Finance & Control and the external auditor. The meetings are also always attended by the chairs of the Supervisory Board and the Risk Committee. The Audit Committee holds a private session with the external auditor and the head of the IAD prior to every regular meeting of the Audit Committee. The Chair of the Audit Committee consults with the head of the IAD periodically.

The Audit Committee met four times in 2020. It was informed about all quarterly reports with key figures, developments and outlook in relation to clients, profitability, solvency, capital, liquidity and funding. In response, the Audit Committee asked the Executive Board questions about the development of turnover and the portfolio, about the scope offered by the realised return for the bank to serve its customers even better and about the costs. The impact of the COVID-19 pandemic on liquidity and funding was also discussed, establishing that this impact was of a relatively short duration and BNG Bank had sufficient buffers to absorb the effects. The impact of the pandemic on the bank's clients was also addressed in relation to the provisions to be created. Another item for discussion was the bank's participation in the TLTRO.

The 2019 financial statements and the Annual Report were also key items on the agenda. Following up on this, the Audit Committee discussed the quality of the results, as well as the level of provisions. The Audit Committee gave the Supervisory Board a positive recommendation on the Executive Board's proposal concerning a dividend distribution of 50% for 2019. In the external auditor's report, the Audit Committee received an explanation of the 'key audit matters', namely the impairments of loans and receivables, the system of hedge accounting applied by BNG Bank and the measurement of financial instruments. The Audit Committee agrees with the findings of the auditor. The key IAD findings and the progress of the implementation of the IAD findings were also regularly discussed during 2020.

Risk Committee

The Risk Committee supports the Supervisory Board in monitoring the activities of the Executive Board in risk-related matters such as risk policy and risk management, compliance and the risk analysis of the remuneration policy, and prepares the Supervisory Board's decision-making on these matters. Besides by Risk Committee members, the Risk Committee meetings are attended by the Executive Board members, the head of the Internal Audit Department (IAD), the head of Risk Management and the Compliance Officer, when invited. The Chair of the Risk Committee consults with the head of Risk

Management twice a year and with the Compliance Officer once a year.

The Risk Committee met five times in the year under review. At regular intervals, the Risk Committee discusses the effectiveness of the structure and functioning of the internal risk management and control systems, as well as the material controls. The Committee receives a quarterly Risk Report, which reports on the monitoring of the Risk Appetite approved by the Supervisory Board. The reports discuss the development of the bank's credit, market, liquidity and operational risks, including cyber risk and non-financial risks. Further to these reports, the Risk Committee has addressed a variety of topics, such as the required improvements in the credit process, the importance of data quality and the further development of the IT organisation.

In 2020, the Risk Committee placed a particular focus on the credit process and the improvement programme set up for this purpose. The Risk Committee has also considered the impact of the COVID-19 pandemic on the bank, with an emphasis on its effects on lending activities, the bank's capital and liquidity position, and business continuity. The Risk Committee also discussed the ECB's supervision programme and the regulator's findings.

BNG Bank set up a Compliance Management Framework (CMF) in 2019, which is intended to ensure that the bank demonstrably complies with all applicable laws and regulations. In 2020 the Risk Committee discussed the development of this CMF, with a focus on what the compliance function will ultimately look like. From 2020, the Risk Committee will receive a compliance report every quarter that deals on the one hand with compliance with the existing laws and regulations, and on the other with preparations for and the implementation of new laws and regulations. These reports prompted a discussion of the organisation of the CDD process, among other things.

The Risk Committee also prepared the annual adoption of the Risk Appetite Statement (RAS) by the Supervisory Board. Each year, the Risk Committee furthermore discusses the updated recovery plan and the result of the Supervisory Review and Evaluation Process (SREP). The SREP includes the assessment of risks in relation to capital (ICAAP) and liquidity (ILAAP). The documents drawn up in this context inform the establishment of the capital requirement by the regulator. Additional ICAAP and ILAAP scenarios were drawn up in 2020 in relation to the COVID-19 pandemic.

HR Committee

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

The HR Committee met four times in 2020. Important topics included the vacancies arising due to the departure of Marjanne Sint and Jantine Kriens from the Supervisory Board with effect from the General Meeting of Shareholders in 2021. The HR Committee proposed that three new Supervisory Board members be recruited in order to guarantee continuity within the Supervisory Board. This means that the Supervisory Board will temporarily consist of eight members. The HR Committee subsequently engaged in the recruitment and selection of candidates for these vacancies. Candidates meeting the set requirements were found for the vacancies. The HR Committee was also involved in the recruitment and selection process for the role of CRO and the vacancies arising from the formation of an Executive Committee. The HR Committee conducted interviews with the candidates and nominated individuals to fill the vacancies.

The HR Committee was informed about the vacancy filling for management positions below Executive

Board level. The HR Committee consulted with the Executive Board on the HR strategy in connection with 'Our Road to Impact'. Finally, the HR Committee advised the Supervisory Board on the implementation of the programme for permanent education.

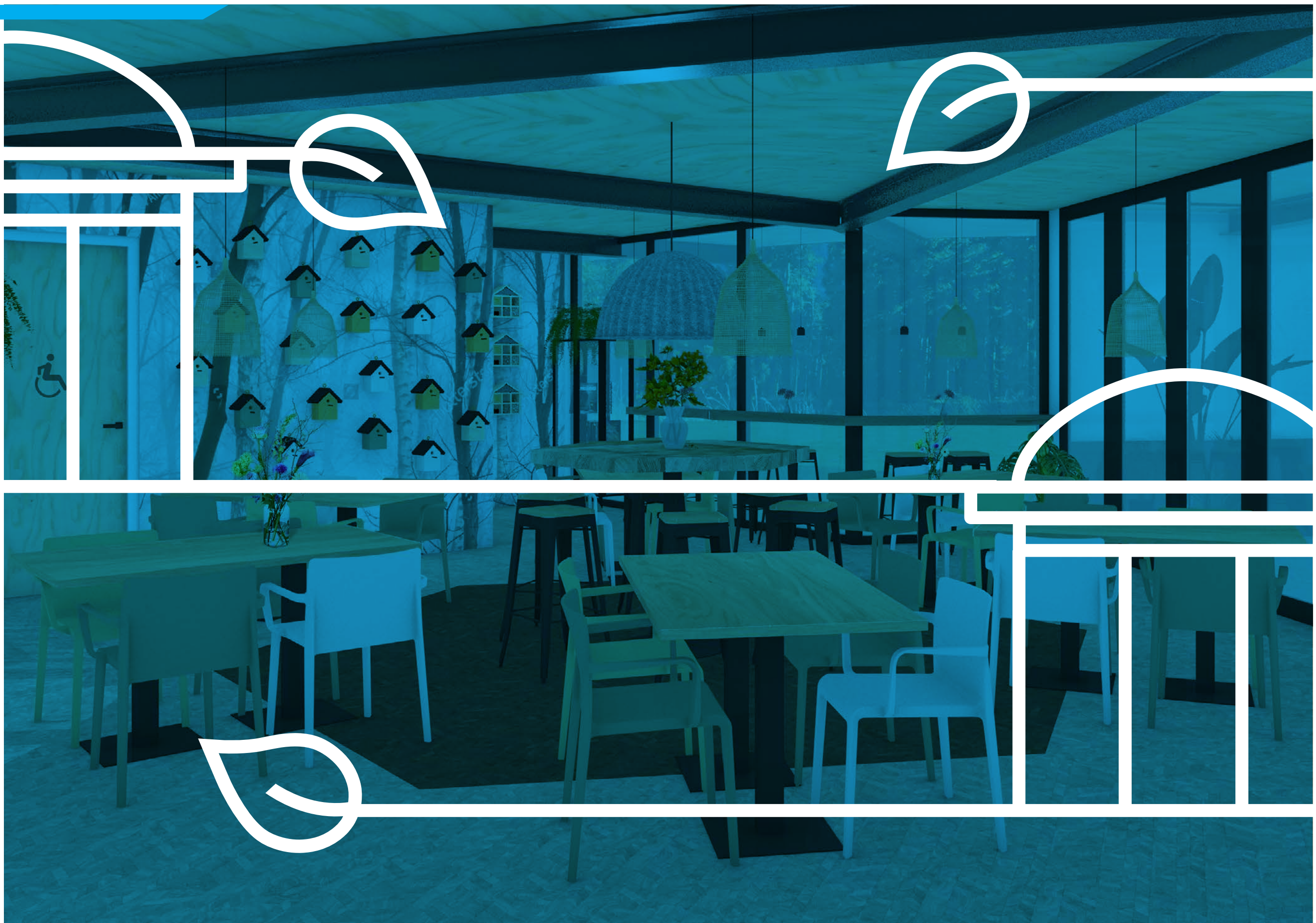
Remuneration Committee

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

The Remuneration Committee met once in 2020. During the meeting, the Remuneration Committee discussed the implementation of the remuneration policy in 2019, both for the Executive Board and for the employees. Special attention was paid in this context to the remuneration of employees who can materially influence the bank's risk profile, designated as 'Identified Staff'. The Committee received information on their remuneration and took note of the results of the annual risk analysis for restrained remuneration policy.

The profit-sharing scheme was discontinued with effect from 31 December 2019. Therefore, no profit share will be paid to employees in 2020. The Remuneration Committee gave the Supervisory Board a positive recommendation on the changes this involved in terms of the remuneration policy for the bank's employees.

The Remuneration Committee also gave the Supervisory Board a positive recommendation on the payment of variable remuneration awarded in previous years to the Executive Board and employees belonging to the Identified Staff, and which is paid out over a period of several years. In the Remuneration Report, which was prepared by the Remuneration Committee, the Supervisory Board reports on the remuneration policy of the Executive Board and the employees, as well as on the execution of the remuneration scheme for the Supervisory Board.



Naturhus, Almelo

Construction of sustainable pavilion

Citizen initiative with municipality

Energy label A
Green roof

DUURZAAMHEIDSFONDS

7 SUPPLEMENTARY INFORMATION

7.1 Materiality and value creation

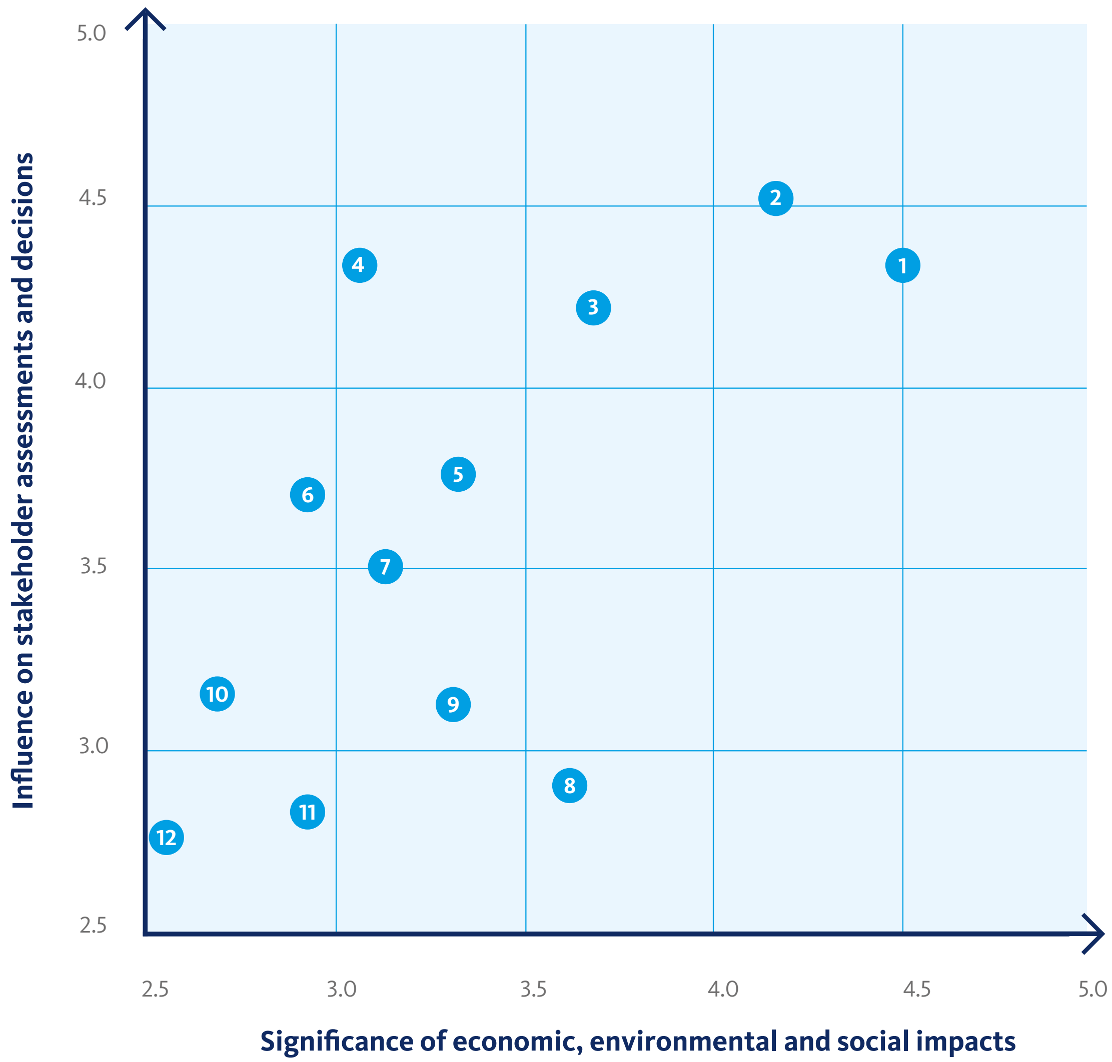
The Annual Report has been prepared in conformity with the 'GRI Standards'. These standards are used to determine which topics are of material importance and should be included in the annual report. The Annual Report also shows how BNG Bank created financial and non-financial value for its stakeholders in 2020.

Material topics

Material topics have a significant impact on the organisation or are topics over which BNG Bank can exercise significant influence. To determine which topics are material to BNG Bank and its stakeholders, materiality analyses are carried out. A materiality analysis was carried out among internal and external stakeholders in 2019. All possible relevant topics were taken into consideration and a 'long list' was drawn up of 200 relevant, non-financial topics that can be reported on, tailored to the financial sector. These topics were consolidated into 12 material topics. Following consultation with the stakeholders, a materiality matrix was drawn up based on the assessment made by the stakeholders. A detailed description of the materiality analysis can be found on the website. Based on the survey, a materiality matrix was drawn up showing the prioritisation from the stakeholder groups' perspective along the vertical axis and the prioritisation on the internal side along the horizontal axis. The materiality matrix is shown below. The definitions of the x-axis and the y-axis of the matrix are based on the GRI Standards in accordance with which this Annual Report has been prepared. The 'Influence on stakeholder assessments and decisions' indicates the external prioritisation by stakeholders and the 'Significance of economic, environmental and social impacts' indicates the bank's own internal prioritisation. The definitions of the material topics can be found in the Glossary.

Value creation

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



Material topics

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

Value creation model

Input

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

Social capital
- Stable shareholder base in the public sector.
- Long-term relationships with the public sector.
- Sound governance structure and ethical business practices.

Natural capital
- Energy and other natural resources used in business operations.

Intellectual capital
- Knowledge and experience in the public sector.

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

Purpose

- BNG Bank – Driven by social impact.

Output

Financial capital
- Low financing costs for clients.
- Reasonable return for shareholders.

Social capital
- Stable shareholder base.
- Satisfied and loyal clients.
- Sound reputation.
- Transparency in activities and services.
- Fair tax payments.

Natural capital
- Contribution to a sustainable and future-proof society.

Intellectual capital
- Contribution to solutions for financing and sustainability issues in the public sector.

Human capital
- Committed, professional and honest employees.
- High employee satisfaction.
- Sustainable employability.

Outcome

- Social impact.

Strengths

- Reliable, safe and financially sound bank
- Social involvement
- Stable relationships with clients
- Compact organization with short lines of communication
- Personal client relationship
- Competitive rates due to strong funding position
- Structural availability to clients

Weaknesses

- Dependence on money and capital markets
- Limited innovative capacity
- One-sided profile
- Limited range of products and services

Opportunities

- Capitalising on technological developments, new markets and products
- Creating a more sustainable society
- Contributing towards affordable and liveable neighbourhoods
- Improving the sustainability of healthcare and education property
- Developing the market for sustainable bonds (Green Bond Standards)

Threats

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

Risks and opportunities / SWOT

BNG Bank's strengths and weaknesses and its main opportunities and threats are shown above.

Connectivity

The figure below provides an insight into the interconnections between the material topics, the goals linked to them, the results achieved and the consequences for stakeholders. A connection has also been made between material topics and the SDGs, the applicable GRI aspects and the sections in which the material topics are discussed in greater detail.

Impact for

employees clients

Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
7 AFFORDABLE AND CLEAN ENERGY
11 SUSTAINABLE CITIES AND COMMUNITIES

7.2 Reporting principles

With its 2020 annual report, BNG Bank renders account of its activities in the 2020 financial year. The Annual Report represents a balanced and complete analysis of the situation on the balance sheet date, the development and the results during the financial year, and it contains financial and non-financial performance indicators.

Legislation

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

Reporting guidelines

The Annual Report has been prepared in conformity with the 'Comprehensive option' of the GRI Standards (Sustainability Reporting Guidelines of the Global Reporting Initiative). The Annual Report shows, in accordance with the International <IR> Framework, how BNG Bank created financial and non-financial value for its stakeholders in 2020. The report provides an overview of the principal developments and the performance of BNG Bank in 2020 and shows how the bank deals with opportunities, risks and uncertainties. The Annual Report is based on the topics designated as material by the Executive Board and stakeholders. The process for determining material topics and reporting priorities is available on the website.

BNG Bank participates in the Transparency Benchmark, a survey of the Ministry of Economic Affairs and Climate Policy into the content and quality of external reporting on social aspects of enterprise. In the revised approach of the Transparency Benchmark 2019 (for the 2018 financial year), BNG Bank fell significantly in the ranking of the most transparent annual reports. BNG Bank scored few or no points on material topics, value creation, Sustainable Development Goals, business model and supply chain management in particular. The results of the Transparency Benchmark have been analysed in detail and the options available for improving the score on the Transparency Benchmark have been examined. BNG Bank hopes that it has significantly improved a number of aspects in this Annual Report.

Codes and guidelines complied with

BNG Bank endorses a number of codes of conduct and international conventions and guidelines. BNG Bank has undertaken to comply with the Dutch Banking Sector Agreement on international responsible business conduct regarding human rights (2016). As a consequence of the latter agreement, BNG Bank has with effect from 2020 applied the Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk in project finance. BNG Bank participates in the Spitsbergen Agreement (2018). Along with other financial institutions, BNG Bank committed to the Climate Agreement in 2019. As a result of this agreement, the bank reports on the climate impact of its lending activities and produces an action plan to contribute towards the reduction of CO_2 emissions. BNG Bank endorses the 'Future-oriented Banking' package of the Dutch Banking Association (NVB), which brings together the Social Charter, the Dutch Banking Code and a set of the rules of conduct associated with the bankers' oath and by means of which the banking sector states explicitly how it is aiming for service-oriented and sustainable banking. BNG Bank adheres to the recommendations under the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises, and has implemented these recommendations in its relevant procedures. BNG Bank complies with the provisions of the Dutch Corporate Governance Code (2016 revised version) by ensuring that its working methods are aligned as closely as possible with the Code, among other things. An overview of compliance with the principles and best practice provisions of the Dutch Corporate Governance Code can be found on the website.

Defining the scope of the Annual Report

Non-financial information for the 2020 calendar year is included in the 2020 Annual Report to inform stakeholders about the public role of BNG Bank, in relation to its mission, strategy and objectives. The information in this report relates to BNG Bank N.V. The two subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. have not been included in this report as both subsidiaries are being phased out. Where non-financial data relate to subsidiaries, this is indicated. Both subsidiaries are included in the consolidated financial statements. There were no potential or actual acquisitions and disposals in the year under review. The performance of suppliers, sources of funding, clients and other parties in the chain is not included in the figures.

Data collection

The quantitative and qualitative information in this Annual Report was collected on the basis of requests to provide data, requests for information and through interviews. Sources of data include staff records, financial reports, incident registration, the registration of reports from internal confidential counsellors and the Compliance Officer, and the energy consumption records of Facility Management. Information was provided by the departments of Compliance, Finance & Control, HR, Processing, Risk Management and Treasury & Capital Markets. Interviews were held with employees of Business Development and Public Finance, among others. BNG Bank follows the GRI Standards for the quality of the data included in this Annual Report. The non-financial data in this report relate to the 2020 reporting year. Where possible, data and results are also reported for prior years. Internal and external audits are performed on data included in this report.

Principles and method used for determining the CO_2 emissions of the credit portfolio

The CO_2 emissions of the credit portfolio were calculated based on the method developed by the Partnership for Carbon Accounting Financials (PCAF).

BNG Bank reported on the CO_2 emissions of its lending activities for the first time in 2018. There was a focus in 2020 on improving the method and the quality of internal and external data. This method was applied to the next measurement. The data for 2018, which can be found in the table below, were recalculated based on this method and therefore differ from the data published in the 2019 Annual Report. The CO2 emissions of the various client sectors for 2018 and 2019 are shown in the table below. External data for 2020 is not yet available. The percentages in brackets indicate the share of the total credits outstanding in the relevant client segment that was included in the measurement. The impact was calculated by reference to the share of the amounts outstanding in the various sectors at year-end 2019 in the total debt position of the sector. It is often still necessary to resort to sector averages or reasoned estimates in calculations of the emission data of the various sectors. Public sources were used for this purpose. The actual CO_2 emissions are not measured by BNG Bank. The share of the financing provided by BNG Bank in the emissions of a client or project is calculated by multiplying the bank's share in the total balance sheet size of this client or project by the total greenhouse gas emissions of this client. The calculation is based on the bank's outstanding loans at year-end 2018 and 2019 (based on nominal amounts outstanding). The emissions data are derived from or calculated based on public data available from Statistics Netherlands, the Human Environment and Transport Inspectorate, the CBIG (implementing body of the Ministry of Health, Welfare and Sport), the Education Executive Agency (DUO) and sustainability reports of the financed institutions. The calculations were performed by Telos.

Of the asset classes distinguished in the PCAF method, the following are relevant for BNG Bank: Public Sector Entities, Sovereign Bonds, Project Finance, Commercial Real Estate and Corporate/SME Loans. The measurement has been done in accordance with the general principles laid down by the PCAF:
- where possible, the seven greenhouse gases from the Kyoto Protocol have been included in the calculation and converted to their CO_2 equivalents;
- absolute emissions are expressed in metric tonnes of CO_2equivalents (tCO_2e);
- relative emissions are expressed in metric tonnes of CO_2equivalent/million euros (tCO_2e/M€);
- the follow-the-money principle is applied for measuring the CO2 emissions of financial assets, which means that the financing must be traced as far as possible within the chain in order to properly understand the consequences of CO2 emissions on the economy;
- in principle, Scope 1, Scope 2 and the relevant parts of Scope 3 are taken into account in the calculation (see the Glossary for the definitions). Any deviations from this must be explained;
- the greater the influence of a financial institution on an investment, the larger the proportion of the investment that needs to be included in the calculation;
- to calculate the share in the CO_2 emissions, all types of financing (both shares and loans) provided must be taken into account in the calculation. Any deviations from this must be explained.

Sector	Amount included in the measurements in 2019	CO_2 emissions (tonnes of CO_2 eq.)	CO_2 emissions per million euros	Amount included in the measurements in 2018	CO_2 emissions (tonnes of CO_2 eq.)	CO_2 emissions per million euros	Data quality[1]
Public sector[2]	27,408 (100%)	1,666,333	60.8	26,343 (100%)	1,729,828	65.7	3
Social Housing	39,764 (99%)	964,870	24.3	38,351 (99%)	1,044,266	27.2	2.5
Healthcare	5,234 (72%)	300,418	57.4	4,946 (71%)	284,683	57.6	2.5
Education	593 (63%)	27,674	46.7	613 (64%)	29,848	48.7	1.75
Mobility	1,071 (71%)	21,252	19.8	885 (59%)	14,017	15.8	4
Water supply companies	691 (88%)	4,616	6.7	712 (88%)	4,725	6.6	2
Other	30 (1%)	265	8.8	0	-	-	4
TOTAL	**74,791 (89%)**	**2,985,428**	**39.9**	**71,850 (88%)**	**3,107,366**	**43.2**	

1 No assurance procedures have been performed by an external auditor for classes 2 to 5.
2 This excludes the part of the loan portfolio in the public sector which is not included in the measurements in 2019, but is presented in the 'other' sector in this table.

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

No data are currently available on the extent of emissions avoided or neutralised as a result of projects financed by BNG Bank. The calculation of the scope 3 emissions for the public sector has been refined based on a practical example. For housing associations, it is not possible to calculate the Scope 3 emissions according to the Greenhouse Gas Protocol (see Glossary for definitions). This includes emissions resulting from the construction (and major maintenance works) of housing association property (for example transport of building materials and manufacture of pre-fab building elements). No calculations or data are available for arriving at a reasonable estimate of these emissions. There is also no Scope 3 data available for the education sector. For the ‘Other organisations and infrastructure’ category, it is possible to identify Scope 1 and Scope 2 emissions. Scope 3 data are not available. No data are available for emissions arising during the construction phase of projects.

Calculation of CO_2 emissions of internal business operations

To monitor progress, BNG Bank reports the CO_2emissions of its own business operations each year on the basis of Scope 1, Scope 2 and Scope 3 of the Greenhouse Gas Protocol (see Glossary for definitions). BNG Bank uses 2010 as the baseline year for its CO_2 emissions. Since that year, BNG Bank has registered its CO2emissions on an annual basis. CO_2 emissions are calculated on the basis of all business units that fall within BNG Bank’s operational control.

Up to and including 2012, BNG Bank applied the international conversion factors stated in the Greenhouse Gas (GHG) Protocol, those of the Department for Environment, Food and Rural Affairs (Defra in the UK), and those set out in the EC IPPC (Industrial Emissions) Directive. In 2013, since BNG Bank is active in the Dutch market, the bank switched from applying the international conversion factors to using the standard conversion factors generally accepted in the Netherlands instead, in accordance with the CO_2 performance ladder. Green power is extrapolated as climate-neutral in this context (0 grams CO_2/kWh). Since 2016, the CO_2 emissions generated by district heating have been calculated on the basis of the STEG emissions factor applied by the supplier (46.2 kg/GJ). In contrast to the CO_2 performance ladder, business flights are attributed to Scope 3 (in accordance with the GHG-protocol).

A number of assumptions have been made in order to calculate the CO_2 emissions. For instance, we did not know the number of kilometres driven by employees in their own cars for business purposes. However, this is compensated by an estimate made of the private use of leased cars (9,000 km/year). Reference values per m^2 published by Statistics Netherlands have been used to calculate the CO_2 emissions of the rental location in Zoetermeer (included under the bank’s scope 3 emissions). In terms of accuracy, BNG Bank deems the inherent limitations attached to the assumptions to be non-material.

Schutse Zorg, Sint-Annaland, Tholen

Renovation and expansion of location

€ 7.8 million
in financing for acquisition of nursing home

3 GOOD HEALTH AND WELL-BEING

8 residents
12 residential properties
for independent living

7.3 Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing sustainability efforts (material topic): Contributing to increasing the sustainability of the Netherlands by financing the energy transition and increasing the sustainability of real estate.

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

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

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

Impact: The net impact determined by the difference between the positive impact on SDGs and the negative impact on (other) SDGs.

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

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

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

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

Loans not subject to solvency requirements: Loans for which no own capital is required to be maintained, because they are regarded as virtually free of credit risk. Loans granted to or guaranteed by the Dutch government authorities are regarded as virtually free of credit risk.

Loans subject to solvency requirements: Loans for which, pursuant to regulations, a certain quantity of own capital must be maintained, as a buffer for the risk that the loan is not repaid.

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

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

Material topics: Topics identified using the 'materiality analysis' which are sufficiently important to be reported on in the Annual Report.

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

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

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

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

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

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

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

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

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

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

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

Scope 1: Direct CO_2emissions caused by fuels that the institution itself purchases and consumes. This concerns emissions from the institution's own buildings and transport and production-related activities.

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

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

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

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

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

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

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

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

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

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

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

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

Two-tier structure: Two-tier board model where management and supervision are divided between two bodies, which are the Executive Board and the Supervisory Board.

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

8 FINANCIAL STATEMENTS

8.1 Consolidated financial statements

Consolidated balance sheet

Amounts in millions of euros		31-12-2020	31-12-2019
Assets	**NOTE**		
Cash and balances held with central banks	1	2,312	1,272
Amounts due from banks	2, 34	120	66
Cash collateral posted	3, 34	20,361	14,643
Financial assets at fair value through the income statement	4	1,452	1,764
Derivatives	5	8,540	10,004
Financial assets at fair value through other comprehensive income	6, 34	9,738	9,222
Interest-bearing securities at amortised cost	7, 34	7,880	7,764
Loans and advances at amortised cost	8, 34	88,942	88,279
Value adjustments on loans in portfolio hedge accounting	9	20,816	16,462
Associates and joint ventures	10	31	35
Property & equipment	11	17	18
Current tax assets	20	1	30
Other assets	12, 34	149	130
Total assets		**160,359**	**149,689**
Liabilities			
Amounts due to banks	13	12,221	1,933
Cash collateral received	14	858	1,137
Financial liabilities at fair value through the income statement	15	656	674
Derivatives	16	26,965	22,651
Debt securities	17	108,615	112,661
Funds entrusted	18	5,599	5,575
Subordinated debts	19	35	33
Current tax liabilities	20	-	-
Deferred tax liabilities	20	98	78
Other liabilities	21	215	60
Total liabilities		**155,262**	**144,802**
Equity			
Share capital		139	139
Share premium reserve		6	6
Retained earnings		3,712	3,567
Revaluation reserve		86	84
Cash flow hedge reserve		11	13
Own credit adjustment		5	8
Cost of hedging reserve		184	174
Net profit		221	163
Equity attributable to shareholders	22	**4,364**	**4,154**
Hybrid capital	22	733	733
Total equity	22	**5,097**	**4,887**
Total liabilities and equity		**160,359**	**149,689**

Consolidated income statement

Amounts in millions of euros

	NOTE	2020	2020	2019	2019
- Interest revenue calculated using the effective interest method		4,514		4,889	
- Other interest revenue		362		634	
Total interest revenue		4,876		5,523	
- Interest expenses calculated using the effective interest method		4,313		4,994	
- Other interest expenses		86		94	
Total interest expenses		4,399		5,088	
Interest result	23		477		435
- Commission income		29		32	
- Commission expenses		4		2	
Commission result	24		25		30
Result on financial transactions	25		-17		37
Results from associates and joint ventures	26		3		3
Other results	27		1		1
Total income			**489**		**506**
Staff costs	28		49		41
Other administrative expenses	29		46		37
Depreciation	30		3		3
Other operating expenses			0		0
Total operating expenses			**98**		**81**
Net impairment losses on financial assets	31		16		153
Net impairment losses on associates and joint ventures	32		1		7
Contribution to resolution fund	33		8		8
Bank levy	33		34		30
Total other expenses			**59**		**198**
Profit before tax			**332**		**227**
Income tax expense	20		111		64
Net profit			**221**		**163**
- of which attributable to the holders of hybrid capital			19		21
- of which attributable to shareholders			202		142

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

Consolidated statement of comprehensive income

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

		2020		2019
Net profit		**221**		**163**
Recyclable results recognised directly in equity				
Changes in cash flow hedge reserve:				
- Unrealised value changes	-2		3	
- Realised value changes transferred to the income statement	-		-	
		-2		3
Changes in cost of hedging reserve:				
- Unrealised value changes	20		- 50	
- Realised value changes transferred to the income statement	-10		2	
		10		- 48
Changes in the revaluation reserve for financial assets at fair value through other comprehensive income:				
- Unrealised value changes	32		- 23	
- Realised value changes transferred to the income statement	-30		- 18	
		2		- 41
Total recyclable results		**10**		**- 86**
Non-recyclable results recognised directly in equity:				
- Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL	-3		-1	
Total non-recyclable results		**-3**		**-1**
Results recognised directly in equity		**7**		**-87**
Total		**228**		**76**
- of which attributable to the holders of hybrid capital		19		21
- of which attributable to shareholders		209		55

Consolidated cash flow statement

Amounts in millions of euros

	2020	2019
Cash flow from operating activities		
Profit before tax	332	227
Adjusted for:		
- Depreciation	3	3
- Impairments	17	160
- Unrealised results through the income statement	54	-20
Changes in operating assets and liabilities:		
- Changes in Amounts due from and due to banks (not due on demand)	10,463	-532
- Changes in Cash collateral posted and received	-5,864	-1,854
- Changes in repos and reverse repos	-	-
- Changes in Loans and advances	-628	-3,432
- Changes in Funds entrusted	172	-272
- Changes in Derivatives	-1,416	626
- Corporate income tax paid	-71	-86
- Other changes from operating activities	-210	-232
Net cash flow from operating activities	**2,852**	**-5,412**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
- Financial assets at fair value through the income statement	-146	-3
- Financial assets at fair value through other comprehensive income	-5,016	-1,776
- Interest-bearing securities at amortised cost	-1,862	-1,824
- Investments in associates and joint ventures	-	-1
- Property and equipment	-2	-3
Disposals and redemptions pertaining to:		
- Financial assets at fair value through the income statement	496	45
- Financial assets at fair value through other comprehensive income	4,553	2,267
- Interest-bearing securities at amortised cost	1,821	1,516
- Investments in associates and joint ventures	2	3
Net cash flow from investing activities	**-154**	**224**
Cash flow from financing activities		
Amounts received on account of:		
- Financial liabilities at fair value through the income statement	-	12
- Debt securities	219,779	401,879
Amounts paid on account of:		
- Financial liabilities at fair value through the income statement	-8	-143
- Debt securities	-221,405	-396,691
- Subordinated debt	-	-
- Compensation on hybrid capital	-25	-25
- Dividend distribution to shareholders	-	-159
Net cash flow from financing activities	**-1,659**	**4,873**
Net change in cash and cash equivalents	**1,039**	**-315**
Cash and cash equivalents as at 1 January	1,276	1,591
Cash and cash equivalents as at 31 december	**2,315**	**1,276**

Continuation of previous page

Consolidated cash flow statement

Cash and cash equivalents as at 31 December:		
- Cash and balances held with central banks	2,312	1,272
- Cash equivalents in the Amount due from banks item	4	4
- Cash equivalents in the Amount due to banks item	-1	-
	2,315	**1,276**
Notes to cash flow from operating activities		
Interest income received	5,877	5,884
Interest expenses paid	-5,550	-5,634
	327	**250**

Consolidated statement of changes in equity

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

	Share capital	Share premium reserve	Revaluation reserve	Cashflow hedge reserve	Own credit adjustment	Cost of hedging reserve	Retained earnings	Unappropriated profit	Equity attributable to shareholders	Hybrid capital	Total
Balance as at 01/01/2019	**139**	**6**	**125**	**10**	**9**	**222**	**3,747**	**-**	**4,258**	**733**	**4,991**
Total comprehensive income			**-41**	**3**	**-1**	**-48**		**163**	**76**		**76**
Dividend distribution to the bank's shareholders							-159		-159		**-159**
Compensation to holders of hybrid capital							-21		-21		**-21**
Balance as at 31/12/2019	**139**	**6**	**84**	**13**	**8**	**174**	**3,567**	**163**	**4,154**	**733**	**4,887**
Appropriation from previous year's profit							163	-163	0		**0**
Balance as at 01/01/2020	**139**	**6**	**84**	**13**	**8**	**174**	**3,730**	**-**	**4,154**	**733**	**4,887**
Total comprehensive income			**2**	**-2**	**-3**	**10**	**0**	**221**	**228**		**228**
Dividend distribution to the bank's shareholders									0		**0**
Compensation to holders of hybrid capital							-18		-18		**-18**
Appropriation from previous year's profit											**0**
Balance as at 31/12/2020	**139**	**6**	**86**	**11**	**5**	**184**	**3,712**	**221**	**4,364**	**733**	**5,097**

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

Accounting principles for the consolidated financial statements

General company information

The consolidated financial statements were prepared and issued for publication by the Executive Board on 12 March 2021 and will be presented to the General Meeting of Shareholders for adoption on 22 April 2021. BNG Bank is a statutory two-tier company under Dutch law. Half of the Bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2, The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

Applicable laws and regulations

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

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

The consolidated financial statements are prepared on the basis of the going-concern principle. Most balance sheet items are valued at amortised cost. The balance sheet items Financial assets at fair value through the income statement (FVPL), Financial assets at fair value through other comprehensive income (FVOCI), Derivatives and Financial liabilities at fair value through the income statement (FVPL) are recognised at fair value. The balance sheet item Associates and joint ventures is stated according to the equity method. The balance sheet item Property and equipment is stated at cost less accumulated depreciation. Income is recognised if it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated where possible to the period in which the services were provided or to the related income counterbalancing these expenses. For a detailed description, please refer to the accounting principles for the individual balance sheet items.

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

Accounting principles for consolidation

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

Impact of COVID-19 on Financial Statements

Due to the world-wide outbreak of COVID-19 pandemic, 2020 was different than any other year before. Whilst the outbreak had an influence on everyone both operationally and financially, we observed the impact on our results to be limited for 2020. We refer to the report of the executive board for the impact of COVID-19 pandemic on the bank's operations. Further details of the impact on financial results and significant estimates and methods used is provided in the relevant notes.

Changes in presentation of comparative figures

At the end of March 2020, we executed an in-dept review on the Letters of Credit after we got an indication of an omission at that time. We concluded the previously disclosed data was not complete, and as a result an additional amount of EUR 1.553 million, for four transactions entered into in 2012 (USD 506 million) and 2015 (USD 1.238 million), is currently added to our off-balance sheet exposure. We concluded that there is limited impact to prior and current (interim) financial statements as a result of this omission, since the CET1-ratio and Tier 1-ratio in current and prior years are not impacted, as well as any Balance Sheet or Statement of profit and loss line items of current and prior years.

The comparative figures of 'contingent liabilities' are changed in the following tables:
- Breakdown of financial assets and off-balance sheet commitments into impairment stages
- Forborne exposures
- Off-balance

Involvement in non-consolidated structured entities

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

Accounting estimates and judgements

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

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

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

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

Balance sheet netting

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

Foreign currency

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

Segmented information

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

Applied accounting standards adopted by the EU effective on or after 1 January 2020

BNG Bank applied the mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2020, to our 2020 financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS concerning the Interest Rate Benchmark Reform: the amendments issued by the IAS on 26 September 2019 and the EU endorsed the amendment on 15 January 2020. As stated in our Financial Statements of 2019, we early adopted these amendments. The implementation of the IFRS 9/IAS 39 amendments did not affect profit or equity for the period because applying the relief during the pre-replacement phase prevents the discontinuation of hedging relationships and any financial impact such discontinuation would have. This is further stated in paragraph 'Hedge Accounting'.
- Amendments to IFRS 3 'Business combinations' and IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. This improves the understanding of the definitions 'business' and 'material'. The improvements have no impact on BNG Bank.

Accounting standards endorced by the EU effective on or after 1 January 2021

BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been endorced by the EU. BNG Bank has also decided against early application of amended standards and interpretations endorced by the EU whose application is mandatory for the financial years after 1 January 2021. Application of the following new or amended standards, interpretations and improvements might have led to limited adjustments in the 2020 financial statements in respect of valuation, the determination of the result and the disclosures of the bank.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 19 concerning the Interest Rate Benchmark Reform - Phase 2: amendments issued bij IASB in August 2020 to adress the accounting issues which arise upon the replacement of an IBOR with a Risk free rate. The impact on the financial statements as a result of the IBOR reform is expected to be limited. BNG Bank will apply IBOR reform Phase 2 as from 1 January 2021.
- Amendments to IFRS 4 'Insurance Contracts: amendments issued by the IAS on 25 June 2020 and is endorced by the EU on 15 December 2020. The Bank does not have any insurance contracts with cliënts, therefore no impact on the financial statements is expected.
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions: amendments issued by the IAS on 28 May 2020 and endorced by the EU on 9 October 2020. The Bank does not have any lease agreements with clients, therefore no impact.

Accounting standards not adopted by the EU which are not yet applied

BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been adopted by the EU. BNG Bank has also decided against early application of amended standards and interpretations adopted by the EU whose application is mandatory for the financial years on or after 1 January 2021.

Interest Rate Benchmark Reform ("IBOR reform")

As part of the IBOR reform new fall back clauses are applied for new centrally cleared instruments as from 27 July 2020. For existing contracts the bank has started discussions with respective counterparties to amend the agreement to new €STR clauses.

For the derivatives of BNG Bank, the International Swaps and Derivatives Association's (ISDA) fall back clauses were made available at the end of 2019 and BNG Bank started the discussion with its financial counterparties with the aim to implement this language into its ISDA agreements for derivatives. In 2020 agreement has been reached with several counterparties and compensation for the difference in valuation has taken place. BNG Bank aims to finalise this in 2020.

For the USD LIBOR issued bond, BNG Bank started a dialogue with bondholders in 2020 to propose amendments to the fall back provisions to move from USD LIBOR to the SOFR. A proposal for the amendments has been draw up and its expected to be finalised in the coming years.

In respect of floating rate customer advances and deposits, BNG Bank focused on treating customers fairly and considers several aspects of transition including the reduction of clients' exposures to legacy IBOR contracts by amending or replacing existing contracts to include robust fall back provisions or replace IBOR with relevant alternative benchmark interest rates. A communication plan has been set up and in 2020 client-facing staff received a training to respond to customers appropriately.

BNG Bank is closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by 'IBOR' regulators regarding the transition away from 'IBORs' to EONIA to Euro Short Term Rate (€STR), Sterling Overnight Index Average Rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Tokyo Overnight Average Rate (TONA) respectively.

As from July 2020 the valuation of all derivatives within BNG Bank are switched from EONIA to €STR. The result of this switch was neutral.

BNG Bank has an IBOR transition team in which, but not limited to, risk management, treasury, legal, accounting are represented. The team informes the Executive Board on a periodic basis. The aim of the team is to understand where IBOR exposures are within the business and to prepare the bank for a smooth transition to alternative benchmark rates.

Summary of significant accounting policies

Classification and measurement of financial instruments

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

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

Financial assets measured at amortised cost

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

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

Financial assets measured at fair value through other comprehensive income

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

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

Financial assets or liabilities at fair value through the income statement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets
BNG Bank assesses whether the credit risk on an exposure has increased significantly on an individual basis. The expected credit losses (ECL) is calculated for the following categories of financial assets that are not measured at fair value through the income statement:
- debt instruments measured at amortised cost;
- debt instruments measured at fair value through other comprehensive income;
- loan commitments; and
- financial guarantee contracts.

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

Stage 1: 12-month ECL
BNG Bank recognises an ECL allowance reflecting default events that are possible within the next 12 months for exposures without a significant increase in credit risk (SICR) since initial recognition. In addition, BNG Bank makes use of the Low Credit Risk Exemption (LCRE). This avoids exposures with a low credit risk to move to Stage 2 even when there is a SICR, provided that the increase is such that the total credit risk is still low. In both cases, a 30-day past due period acts as a backstop indicator for movement to Stage 2. The 12-month ECL allowance is calculated for all individual exposures as a function of the Exposure At Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) and incorporates forward-looking information.

Stage 2: lifetime ECL – performing exposures
BNG Bank recognises an ECL allowance reflecting default events that are possible during the remaining lifetime of the financial assets for exposures which have had a significant increase in credit risk since initial recognition, but which are not considered credit-impaired. This mainly includes exposures with a credit rating that is not considered to be investmentgrade and for which the credit rating dropped at least one notch since initial recognition.

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

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

Determining the stage for impairment

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

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

Classification of ECL

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

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

Impact of COVID-19 pandemic

The COVID-19 pandemic has a major financial and social impact on the bank’s clients. Despite this, the pandemic has not resulted in additional material payment problems for the bank's clients. At the time of writing this document, the deteriorated economic outlook following the outbreak of the COVID-19 pandemic did lead to an increase of the model-based ‘point-in-time’ probability of default (PD). In order to correctly indicate this deterioration in the impairment figures, an adjustment of the impairment model was necessary. The pandemic showed that the model had difficulties incorporating the cyclical nature of the macro-economic variables and shocks inherent to these variables. To avoid unrealistic results, BNG Bank implemented an additional component, the so-called Exponentially Weighted Moving Average (EWMA), which prevents shocks as a result of relevant data falling out the forward looking window. Every half year the bank will evaluate the need for the EWMA and adjust the level, if necessary.

Hedge accounting

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

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

Fair value hedge accounting

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

Micro hedge accounting

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

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or BNG Bank decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, BNG Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated, the accumulated fair value hedge adjustment is amortised over the remaining term of the financial instrument by recalculating the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Portfolio hedge accounting

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

Cash flow hedge accounting

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

Foreign currency basis spread

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

Discontinuance of hedge accounting

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

IBOR Reform

The Bank applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a intended transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

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

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

Hedge type	Instrument type		up to 1 year	1 to 5 years	over 5 years	Hedged item
Fair value hedges	Pay float EUR, receive fixed	EUR	2,920	21,383	29,149	Fixed rate issued debt matching critical terms to hedge interest rate risk, FX risk and option risk.
		USD	7,237	11,820	2,504	
		GBP	82	2,423	2,923	
		AUD	1,870	2,539	285	
		CHF	273	1,301	370	
		Other	166	847	490	
	Pay float EUR, receive fixed EUR		1,756	7,742	9,908	Portfolio fair value hedge relationship (of the EUR-libor component) of fixed rate loans and debt securities
	Receive float EUR, pay fixed EUR		4,773	17,104	65,765	
	Receive float EUR, pay fixed EUR		428	3,489	4,966	Fixed rate debt securities held in the liquidity portfolio matching critical terms to hedge interest rate risk.
	Receive float EUR, pay fixed GBP				572	GBP inflation linked rate issued debt matching critical terms to hedge interest rate risk, FX risk and option risk.
	Index payed fixed GBP		1	3	84	GBP inflation linked rate issued debt matching critical terms to hedge interest rate risk,
Cash flow hedges	Pay float EUR, receive float USD		123	1,366	415	USD float rate issued debt matching critical terms to hedge FX risk and option risk.
	Receive float EUR, pay float USD				21	USD float rate loan matching critical terms to hedge FX risk and option risk.
	Pay fixed EUR, receive fixed ZAR			92		ZAR fixed rate issued debt matching critical terms to hedge FX risk and option risk.

Recognition and accounting of financial assets and liabilities

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

If the value of transactions recognised at fair value differs from the transaction price on initial recognition, the profit or loss is included as follows:
- For fair value level 1 or 2 transactions, the difference is recognised directly in the Result on financial transactions item of the income statement.
- For fair value level 3 transactions, the difference is included in the balance sheet as a transitory item, and amortised over the term of the transaction.

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

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

Separated derivatives embedded in financial liabilities
Derivatives embedded in financial liabilities are classified and valued separately if all of the following conditions have been met:
- There is no close relationship between the economic characteristics and risks of the embedded derivative on the one hand and those of the financial instrument.
- The financial instrument is not carried at fair value, with value movements recognised through the income statement.
- A separate derivative instrument on the same terms would match the definition of a derivative.

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

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

Fair value of financial instruments
The fair value is the price (not adjusted for transaction costs) which, regardless of the company's intention or capability, would be received if a financial asset was sold, or the price that would be paid if a financial liability was transferred in an orderly transaction between market participants as at the measurement date under the

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

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

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

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

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

Property and equipment
All property and equipment owned by the Bank is valued at cost less accumulated depreciation. Property relates to land, buildings and technical installations. Equipment relates to office machinery, inventory, furniture, hardware, software and artworks. The depreciation period is determined on the basis of the estimated useful life of the assets (see note 11 to the consolidated financial statements). The estimated useful life and residual value

are reviewed annually. Depreciation is calculated on a straight-line basis and charged to the income statement. Land is not depreciated.

Impairment of non-financial assets

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

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

Employee pensions

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

Other employee benefits

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

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

Deferred tax assets and deferred tax liabilities are both carried at nominal value. All deferred tax assets and liabilities are stated in the accounts of the parent company of the fiscal unit. Deferred tax assets and liabilities are recognised as temporary differences between the carrying amounts on the one hand and the tax bases of assets and liabilities on the other. The bank has registered deferred tax assets and liabilities for the actuarial results for the employee benefits provision, for the revaluation reserve, for own credit adjustments and for the cash flow hedge reserve. These deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods in which they are expected to be realised. Differences in deferred tax assets and liabilities resulting from a change in tax rates are recognised in the income statement. Deferred tax assets are recognised only to the extent to which taxable profits are expected to be available in the near future to compensate for these temporary differences. Tax assets and liabilities, both current and deferred separately, are netted if they concern the same tax authority and the same type of tax and if netting of these assets and liabilities is permitted by law.

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

Hybrid capital
Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to temporary write-down in the event that the CET1 ratio falls below 5.125%. In case of write-down, this amount will be transferred to the Retained earnings. Write-down from the Retained earnings can be reversed (write-up) under certain conditions at the moment that the trigger ratio is back above 5.125% again. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a compensation charged to the Other reserves. The compensation is determined on the basis of the prevailing principal amount. Initially the distributed compensation was not deductible for corporate income tax as from 2019 due to a change in law in 2018. On 15 May 2020, the Dutch Supreme Court, ruled that AT1-capital should be considered debt for Dutch corporate income tax purposes, therefore payments remained deductible as from 2019. BNG Bank has the unilateral contractual option to call the hybrid capital issued. The tranches issued in 2015 (a nominal amount of EUR 424 million) can be repurchased at par from May 2021 and subsequently in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased every year from May 2022.

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

Own credit adjustment
Financial liabilities at fair value through the income statement are recognised at the relevant funding curve, including the spread for 'own credit risk'. The Bank recognises the amount related to changes in fair value

attributable to change in credit risk of financial liabilities designated at fair value through the income statement as Own Credit Adjustment (net of deferred tax assets and liabilities) in equity.

Cost of hedging reserve

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

Cash flow hedge reserve

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

Interest revenue and interest expenses

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

Commission income and commission expenses

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

Result on financial transactions

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

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

Results from associates and joint ventures

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

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

Depreciation
Please refer to the Property and equipment section.

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

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

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

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

Notes to the consolidated financial statements

Amounts in millions of euros

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

Notes 31 and 37 provide an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses in 2020.

1 Cash and balances held with central banks

	31-12-2020	31-12-2019
Cash on hand	0	0
Current account balances with the central bank (due on demand)	2,312	1,272
Total	**2,312**	**1,272**

2 Amounts due from banks

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

	31-12-2020	31-12-2019
Short-term loans and current account balances	5	4
Long-term lending	115	62
Repos	0	-
Total	**120**	**66**

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

3 Cash collateral posted

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

In June 2020, a discounting switch from EONIA to €STR has taken place at clearinghouses as part of the Interest Rate Benchmark Reform. To compensate the lower return on cash collateral a cash payment was received. This amount is stated as part of cash collateral posted and amounts to EUR 23 million negative as per 31 December 2020. This amount will be amortised over 50 years which is equal to the average remaining life of underlying derivatives.

4 Financial assets at fair value through the income statement

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

	31-12-2020	31-12-2019
Mandatorily measured at FVTPL		
Loans and advances	89	136
Designated as measured at FVTPL		
Loans and advances	538	555
Interest-bearing securities	825	1,073
Total	**1,452**	**1,764**

The total redemption value of these loans and advances and interest-bearing securities at year-end 2020 is EUR 939 million (2019: EUR 1,122 million). Note 25 explains the changes in fair value recognised through the income statement.

5 Derivatives

This balance sheet item includes the positive fair value of derivatives not settled-to-market. Also as per year-end 2020 the fair value of the receivables related to settle-to-market derivatives are included.

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

	31-12-2020	31-12-2019
Derivatives not involved in a hedge accounting relationship	196	324
Derivatives involved in a portfolio hedge accounting relationship	3,713	2,822
Derivatives involved in a micro hedge accounting relationship	4,601	6,848
Receivables related to STM derivative contracts	30	10
Total	**8,540**	**10,004**

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

6 Financial assets at fair value through other comprehensive income

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

	31-12-2020	31-12-2019
Governments	6,312	6,363
Supranational organisations	1,417	492
Credit institutions	2,009	2,287
Other financial corporations	0	26
Non-financial corporations	0	54
Total	**9,738**	**9,222**

Transfers without derecognition

At year-end 2020, BNG Bank had transferred EUR 222 million (2019: nil) of financial assets at fair value through other comprehensive income without derecognition in repurchase transactions.

7 Interest-bearing securities at amortised cost

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

	31-12-2020	31-12-2019
Governments	1,491	1,696
Credit institutions	-	-
Other financial corporations	5,216	5,056
Non-financial corporations	1,179	1,018
Allowance for credit losses	-6	-6
Total	**7,880**	**7,764**

At year-end 2020, BNG Bank had transferred EUR 139 million (2019: nil) of interest-bearing securities at amortised cost without derecognition in repurchase transactions.

8 Loans and advances at amortised costs

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

	31-12-2020	31-12-2019
Short-term loans and current account balances	3,485	5,023
Long-term lending	85,667	83,449
Total loans and advances	**89,152**	**88,472**
Allowance for credit losses	-210	-193
Total	**88,942**	**88,279**

9 Value adjustments on loans in portfolio hedge accounting

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

	2020	2019
Movements of value adjustments on loans in portfolio hedge accounting		
Opening balance	16,462	11,566
Movements in the unrealised portion in the financial year	6,094	6,204
Amortisation in the financial year	-1,581	-1,258
Realisation from sales in the financial year	-159	-50
Closing balance	**20,816**	**16,462**

10 Associates and joint ventures

	31-12-2020	31-12-2019	31-12-2020	31-12-2019
	Participating share		Balance sheet value	
Associates				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
Subtotal			**3**	**3**
Joint ventures				
BNG Gebiedsontwikkeling BV, various immaterial participations			28	32
Total			**31**	**35**

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

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

11 Property and equipment

	2020	2019	2020	2019	2020	2019	2020	2019
	Property		**Equipment**		**Right-of-use-asset**		**Total**	
Historical cost								
Opening balance	49	49	24	22	2	-	75	71
Impact of IFRS 16	-	-	-	-	-	2	-	2
Adjusted opening balance	**49**	**49**	**24**	**22**	**2**	**2**	**75**	**73**
Investments	-	-	2	2	0	-	2	2
Value as at 31 December	**49**	**49**	**26**	**24**	**2**	**2**	**77**	**75**
Depreciation								
Accumulated depreciation as at 1 January	38	37	19	17	0	-	57	54
Depreciation during the year	0	1	3	2	0	-	3	3
Accumulated depreciation as at 31 December	**38**	**38**	**22**	**19**	**0**	**0**	**60**	**57**
Total	**11**	**11**	**4**	**5**	**2**	**2**	**17**	**18**

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

No property or equipment is pledged as security of liabilities.

12 Other assets

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

13 Amounts due to banks

	31-12-2020	31-12-2019
Current account balances	1	0
Central bank funding (TLTRO)	10,950	-
Deposits	715	1,377
Private loans	555	556
Total	**12,221**	**1,933**

An amount of EUR 10,950 million relates to ECB's thrid Targeted Longer-Term Refinancing Operation (TLTRO). This consists of two transactions of respectively EUR 8 billion and EUR 3 billion. These floating rate notes have a maturity of three years with an early redemption option after each year.

14 Cash collateral received

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

15 Financial liabilities at fair value through the income statement

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

	31-12-2020	31-12-2019
Publicly placed debt securities	387	408
Privately placed debt securities	269	266
Total	**656**	**674**

The total redemption value of the debt securities at year-end 2020 is EUR 490 million (2019: EUR 514 million). The difference between the financial liability's carrying amount and the redemption value at year-end 2020 is EUR 166 million (2019: EUR 160 million). Financial liabilities are measured at fair value through the income statement on the relevant funding curve including a mark-up for ‘own credit risk’. The total change in value (before tax) was EUR 6 million positive (2019: EUR 10 million positive). Changes in fair value due to own credit risk are recognised through other comprehensive income. These changes are determined by comparing the valuation using the relevant funding curve including a mark-up for ‘own credit risk’ and the valuation using the relevant funding curve without this mark-up. Note 25 explains the changes in value recognised through the income statement.

16 Derivatives

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

	31-12-2020	31-12-2019
Derivatives not involved in a hedge accounting relationship	1,131	1,004
Derivatives involved in a portfolio hedge accounting relationship	23,525	20,249
Derivatives involved in a micro hedge accounting relationship	2,179	1,393
Payables related to STM derivative contracts	130	5
Total	**26,965**	**22,651**

17 Debt securities

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

	31-12-2020	31-12-2019
Bond loans	92,655	94,374
Commercial Paper	7,611	9,333
Privately placed debt securities	8,349	8,954
Total	**108,615**	**112,661**

18 Funds entrusted

	31-12-2020	31-12-2019
Current account balances	2,779	2,420
Short-term deposits	281	25
Long-term deposits	2,539	3,130
Total	**5,599**	**5,575**

19 Subordinated debt

	31-12-2020	31-12-2019
Subordinated debt	35	33
Total	**35**	**33**

20 Taxes

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

	31-12-2020	31-12-2019
Current tax assets	1	30
Current tax liability	-	-
Deferred tax liabilities	-98	-78
Total	**-97**	**-48**

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') in 2018 in accordance with IFRS 9, for the period 2018-2020. A new agreement for the period 2021-2023 is expected to be concluded mid 2021. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets at fair value through other comprehensive income. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised gains have arisen.

There are no temporary differences, the reconciliation between the effective tax rate and the nominal tax rate is as follows:

	2020	2019
Nominal and effective tax rate		
Profit before tax	332	227
Tax levied at the nominal tax rate	-83	-57
Tax adjustment from previous years	0	0
Participation exemption	1	0
Deductible interest on hybrid capital	0	1
Non-deductible costs (bank levy and thin cap)	-29	-7
Effective tax	**-111**	**-63**
Nominal tax rate	25.0%	25.0%
Effective tax rate	33.4%	27.6%

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

2020

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

2019

	Opening balance	Changes through equity	Changes through the income statement	Closing balance
Changes in deferred taxes				
Financial assets at fair value through other comprehensive income	-32	8	-	-24
Cash flow hedge reserve	-62	9	-	-53
Own Credit Adjustment	-2	0	-	-2
Hybrid capital	-4	4	-	0
Employee benefits provision	1	-	0	1
Total	**-99**	**21**	**0**	**-78**

21 Other liabilities

	31-12-2020	31-12-2019
Employee benefits provision	2	2
Other liabilities	213	58
Total	**215**	**60**

The employee benefits provision is made up of two parts, a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 1 million (2019: EUR 1 million) and a provision for vitality leave of EUR 1 million (2019: EUR 1 million). Both provisions have a long-term character.

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

	2020	2019
Employee benefits provision		
Net liability as at 1 January	2	2
Movements in the provision	0	0
Net liability as at 31 december	**2**	**2**

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

22 Group equity

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

	31-12-2020	31-12-2019
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	86	84
Cash flow hedge reserve	11	13
Own credit adjustment	5	8
Cost of hedging	184	174
Retained earnings	3,712	3,567
Unappropriated profit	221	163
Equity attributable to shareholders	**4,364**	**4,154**
Hybrid capital	733	733
Total	**5,097**	**4,887**

	2020	2019
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.81	1.27
Proposed dividend		
- Primary dividend pursuant to the Articles of Association	7	7
- Proposed dividend above the primary dividend	94	64
Total	**101**	**71**

The proposed dividend distribution for 2020 takes into account the EUR 25 million compensation (before tax) that has already been paid on the hybrid capital in 2020. This payment was charged to the Retained earnings.

For the financial year 2019 a dividend of EUR 71 million was proposed to the General Meeting of Shareholders held in the first half of 2020. In advance of the meeting the ECB has recommended European Banks to refrain from, or postpone dividend payments to at least 31 October 2020. In the General Meeting we have announced that we will follow ECB recommendations. In the summer of 2020 the ECB changed its recommendation to refraining from any dividend distribution until at least 31 December 2020. More recently, the ECB agreed on a payment in March 2021 for the amount equivalent to a decrease of the CET 1 ratio with 0,2%, which for BNG Bank amounts to EUR 24 million. Additional distributions of dividend will, following the ECB recommendation, not take place before October 2021. We have the intention to make additional distributions of dividend, however we will need to take into account any future ECB recommendations.

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

Share premium reserve
There were no movements in 2020 and 2019.

Revaluation reserve
At year-end 2020, the revaluation reserve includes EUR 749 million in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which is a part of the Financial assets at fair value through other comprehensive income. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement.

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

Own credit adjustment
The Own Credit Adjustment amounts to EUR 5 million net of taxes (2019: EUR 8 million). This adjustment relates to changes in credit risk of financial liabilities measured at fair value through the income statement.

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

Retained earnings
After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the Retained earnings. In 2020, payment of dividend of EUR 71 million (2019: EUR 159 million) to the bank's shareholders was scheduled. However, due to the COVID-19 outbreak, ECB strongly advised to postpone the payment until 2021. EUR 25 million (before tax) was distributed to the holders of the hybrid capital in 2020 (2019: EUR 25 million),

charged to the Retained earnings. The Retained earnings include a share premium related to hybrid capital of EUR 0.1 million in total (2019: EUR 0.1 million).

Unappropriated profit

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

Hybrid capital

The bank's hybrid capital amounts to EUR 733 million. The instruments are structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to temporary write-down in the event that the CET1 ratio falls below 5.125%. In case of write-down, this amount will be transferred to the Retained earnings. Write-down from the Retained earnings can be reversed (write-up) under certain conditions at the moment that the trigger ratio is back above 5.125% again. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a compensation charged to the Other reserves. The compensation is determined on the basis of the prevailing principal amount. Initially the distributed compensation was not deductible for corporate income tax as from 2019 due to a change in law in 2018. On 15 May 2020, the Dutch Supreme Court, ruled that AT1-capital should be considered debt for Dutch corporate income tax purposes, therefore payments remained deductible as from 2019. BNG Bank has the unilateral contractual option to call the hybrid capital issued. The tranches issued in 2015 (a nominal amount of EUR 424 million) can be repurchased at par from May 2021 and subsequently in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased every year from May 2022.

23 Interest result

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

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

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

	2020		2019	
Interest revenue				
Interest revenue calculated by using the effective interest method:				
- Financial assets at amortised cost	2,054		2,149	
- Financial assets at fair value through other comprehensive income	113		143	
- Derivatives involved in hedge accounting	2,276		2,561	
- Negative interest expenses on financial liabilities	71		36	
		4,514		4,889
Other interest revenue:				
- Financial assets designated at fair value through the income statement	34		42	
- Financial assets mandatory at fair value through the income statement	3		3	
- Derivatives not involved in hedge accounting	325		589	
- Other			0	
		362		634
Total interest revenue		**4,876**		**5,523**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
- Financial liabilities at amortised cost	1,893		2,416	
- Derivatives involved in hedge accounting	2,291		2,429	
- Negative interest expenses on financial assets	129		149	
		4,313		4,994
Other interest expenses				
- Financial liabilities designated at fair value through the income statement	30		31	
- Derivatives not involved in hedge accounting	48		58	
- Other	8		5	
		86		94
Total interest expenses		**4,399**		**5,088**
Total interest result		**477**		**435**

The interest revenue in 2020 includes EUR 2 million (2019: EUR 2 million) in interest revenue for financial assets, relating to Financial assets at amortised cost (notes 7 and 8) and Financial assets at fair value through other comprehensive income (note 6), which were subject to impairment.

The interest revenue on the TLTRO-III deposits amounts to EUR 50 million and will be received on maturity date. The non-market based interest rate including the expected bonus rate is used to calculate the interest result of the TLTRO transactions in 2020. If the conditions of the bonus rate are not met, this will be reflected in a reversal of interest result.

24 Commission result

Commission income
This item includes income from services provided to third parties.

	2020	2019
Income from loans and credit facilities	19	23
Income from payment services	10	9
Total	**29**	**32**

Commission expenses
This item comprises expenses totalling EUR 4 million (2019: EUR 2 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

25 Result on financial transactions

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

		2020		2019
Market value changes in financial assets at fair value through the income statement resulting from changes in credit and liquidity spreads, consisting of:				
- Interest-bearing securities	-24		29	
- Structured loans	-4		0	
		-28		29
Result on hedge accounting				
- Portfolio fair value hedge accounting	-9		-28	
- Micro fair value hedge accounting	2		38	
- Micro cash flow hedge accounting	-3		-2	
		-10		8
Change in counterparty credit risk of derivatives (CVA/DVA)		-3		-10
Realised sales and buy-out results		39		21
Other market value changes		-15		-11
Total		**-17**		**37**

Also in 2020, the result on financial transactions was positively affected by realised results. The realised results of EUR 39 million (2019: 21 million) are mainly due to on balance positive results on the sales from the liquidity portfolio of the bank. The realised results also includes the successful completion in February of a 'true sale and buyback' of a major inflation-linked bond purchased in 2007 and the restructuring of related derivatives. The purpose of these transactions was to reduce income statement volatility and ensures that, from February 2020, this bond is valued at the amortised cost and together with the related derivatives has been brought into hedge accounting. The completion of these transactions led to a realised result of EUR 3 million positive.

The unrealised results amounted to EUR 56 million negative (2019: 16 million positive). The increased credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a negative result of EUR 24 million (2019: 29 million positive) mainly due to the COVID-19 pandemic. The unrealised results were also negatively affected by the result on hedge accounting, changes in counterparty credit risk of derivatives with clients and other market value changes. The other market value changes also include the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

26 Results from associates and joint ventures

	2020	2019
Associates	1	1
Joint ventures	2	2
Total	**3**	**3**

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

27 Other results

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

28 Staff costs

	2020	2019
Wages and salaries	29	28
Pension costs	5	5
Social security costs	3	3
Additions to the employee benefits provision	0	0
Other staff costs	12	5
Total	**49**	**41**

There was no variable remuneration of individual staff members in 2020. In 2019, it was maximized at 20% of their fixed salary.

The increase in staff costs are mainly due to other costs from secondary conditions, training and the addition to the personnel provision.

We refer to section 'Related parties' for the remuneration of the executive board.

29 Other administrative expenses

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, consultancy costs, training expenses and IT expenses. The total other administrative expenses for 2020 amounted to EUR 46 million (2019: EUR 37 million).

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

30 Depreciation

A breakdown of this item is included in the note on Property and equipment (note 11). In total, the depreciation charges amounted to EUR 3 million in 2020 (2019: EUR 3 million).

31 Net impairment losses on financial assets

The impairments in 2020 amounted to a loss of EUR 16 million in the income statement (2019: EUR 153 million loss). The increase of impairments are mainly due to an increase of the probability of default as a result of detoriated economic outlook. Therefore more items are stated in Stage 2. In total the amount of impairments in Stage 2 decreased due to the transfer of one debtor to Stage 3. The transfer is the result of an individual assessment without taking the implicit guarantee of the holding company into account. The total provision for this debtor increased from 16 million in 2019 (in stage 2) to 21 million in 2020 (in stage 3).

The lower impairment result, in comparison with 2019, is mainly due to a large impairment due to changes in credit risk in 2019. This impairment was mainly a result of the decreased credit worthiness of an obligor that provides services to municipalities.

2020

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

2019

	Stage 1	Stage 2	Stage 3	Total
Impairment results due to movements in allowances:				
- Increases in allowances due to origination and acquisition	3	3	0	6
- Decreases in allowances due to derecognition	-2	-4	0	-6
- Changes in allowances due to changes in credit risk (net)	1	4	148	153
	2	**3**	**148**	**153**
Impairment results not due to movements in allowances:				
- Reversal of impairment due to cash flows received from past write-offs	-	-	-	-
- Impairments due to write-offs	-	-	-	-
	-	**-**	**-**	**-**
Net impairment result on financial assets	**2**	**3**	**148**	**153**

Movement in allowances for expected credit losses

2020

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

2019

	Stage 1	Stage 2	Stage 3	Total
Movements in allowances taken through the income statement:				
- Increases in allowances due to origination and acquisition	3	3	0	6
- Decreases in allowances due to derecognition	-2	-4	0	-6
- Changes in allowances due to changes in credit risk (net)	1	4	148	153
	2	**3**	**148**	**153**
Movements in allowances not taken through the income statement:				
- Decreases in allowance due to write-offs			-5	-5
	0	**0**	**-5**	**-5**
Total movements in allowances	**2**	**3**	**143**	**148**

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

32 Net impairment losses on associates and joint ventures

	2020	2019
Impairment of associates and joint ventures	1	10
Reversal of impairment of associates and joint ventures	0	-3
Total	**1**	**7**

Impairments on BNG Gebiedsontwikkeling participations amounted to EUR 1 million (2019: EUR 10 million), reversal of impairments on participations were limited (2019: EUR 3 million). In principle, participations are valued on a going concern basis.

33 Contribution to resolution fund and bank levy

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 8 million payable for 2020 (2019: EUR 8 million) was paid in June 2020 and charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax rate. BNG Bank is due to pay the bank levy in October of every year, which for 2020 amounted to EUR 34 million (2019: EUR 30 million). The calculation of the levy is stated in note 31 of the Company financial statements.

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

31-12-2020

	Due on demand	up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	2,312					2,312
Amounts due from banks	4	2	9	45	60	120
Cash collateral posted		20,361				20,361
Financial assets at fair value through the income statement		66	52	344	990	1,452
Derivatives		255	232	1,918	6,135	8,540
Financial assets at fair value through other comprehensive income		165	185	4,435	4,953	9,738
Interest-bearing securities at amortised cost		227	637	3,914	3,102	7,880
Loans and advances	951	4,195	8,623	29,677	45,496	88,942
Value adjustments on loans in portfolio hedge accounting		11	91	1,608	19,106	20,816
Current tax assets			1			1
Other assets		149				149
Total assets	**3,267**	**25,431**	**9,830**	**41,941**	**79,842**	**160,311**
Amounts due to banks	1	656	83	11,100	381	12,221
Cash collateral received		858				858

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31-12-2020

Financial liabilities at fair value through the income statement		44	72	210	330	656
Derivatives		550	571	2,359	23,485	26,965
Debt securities		12,336	10,013	49,727	36,539	108,615
Funds entrusted	2,779	439	1,119	576	686	5,599
Subordinated debt		1		19	15	35
Current tax liabilities						0
Deferred tax liabilities			5	20	73	98
Other liabilities		188	23	3	1	215
Total liabilities	**2,780**	**15,072**	**11,886**	**64,014**	**61,510**	**155,262**

31-12-2019

	Due on demand	up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	1,272					1,272
Amounts due from banks	5	10	10	30	11	66
Cash collateral posted		14,643				14,643
Financial assets at fair value through the income statement		34	52	286	1,392	1,764
Derivatives		903	1,497	4,028	3,576	10,004
Financial assets at fair value through other comprehensive income		173	337	4,842	3,870	9,222
Interest-bearing securities at amortised cost		143	565	3,181	3,875	7,764
Loans and advances	1,331	6,046	8,545	32,206	40,151	88,279
Value adjustments on loans in portfolio hedge accounting		10	99	1,760	14,593	16,462
Current tax assets			30			30
Other assets		129	1			130
Total assets	**2,608**	**22,091**	**11,136**	**46,333**	**67,468**	**149,636**
Amounts due to banks		1,334	69	100	430	1,933
Cash collateral received		1,137				1,137
Financial liabilities at fair value through the income statement		15	4	211	444	674
Derivatives		296	953	6,020	15,382	22,651
Debt securities		14,036	13,172	49,008	36,445	112,661
Funds entrusted	2,433	295	281	1,678	888	5,575
Subordinated debt		1		18	14	33
Current tax liabilities						-
Deferred tax liabilities			4	16	58	78
Other liabilities		53	2	3	2	60
Total liabilities	**2,433**	**17,167**	**14,485**	**57,054**	**53,663**	**144,802**

35 Breakdown of financial instruments by category

31-12-2020

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

31-12-2019

	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Total
Cash and balances held with central banks	1,272	-	-	1,272
Amounts due from banks	66	-	-	66
Cash collateral posted	14,643	-	-	14,643
Financial assets at fair value through the income statement	-	1,764	-	1,764
Derivatives	-	10,004	-	10,004
Financial assets at fair value through other comprehensive income	-	-	9,222	9,222
Interest-bearing securities at amortised cost	7,764	-	-	7,764
Loans and advances	88,279	-	-	88,279
Value adjustments on loans in portfolio hedge accounting	16,462	-	-	16,462
Total assets	**128,486**	**11,768**	**9,222**	**149,476**
Amounts due to banks	1,933	-	-	1,933
Cash collateral received	1,137	-	-	1,137
Financial liabilities at fair value through the income statement	-	674	-	674
Derivatives	-	22,651	-	22,651
Debt securities	112,661	-	-	112,661
Funds entrusted	5,575	-	-	5,575
Subordinated debt	33	-	-	33
Total liabilities	**121,339**	**23,325**	**-**	**144,664**

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

2020

	Financial liabilities at fair value through the income statement	Debt securities	Subordinated debt	Hybrid capital	Total
Balance at 1 January 2020	**674**	**112,661**	**33**	**733**	**114,101**
Cash flows from financing activities					
- Proceeds from financing activities	0	219,779	0	0	219,779
- Repayments on financing activities	-8	-221,405	0	0	-221,413
- Interest and other cash flows	-15	-1,856	0	0	-1,871
- Compensation on hybrid capital	0	0	0	-25	-25
	-23	**-3,482**	**-**	**-25**	**-3,530**
Non-cash changes					
Unrealised results:					
- Foreign exchange movement	-42	-3,796	0	0	-3,838
- Fair value changes	17	1525	0	0	1,542
Realised results	30	1,707	2	0	1,739
	5	**-564**	**2**	**-**	**-557**
Compensation distributed from Other reserves				25	25
Balance at 31 December 2020	**656**	**108,615**	**35**	**733**	**110,039**

2019

	Financial liabilities at fair value through the income statement	Debt securities	Subordinated debt	Hybrid capital	Total
Balance at 1 January 2019	**762**	**103,722**	**32**	**733**	**105,249**
Cash flows from financing activities					
- Proceeds from financing activities	12	401,879	4		401,895
- Repayments on financing activities	-140	-396,661	-4		-396,805
- Interest and other cash flows	-18	-1,909	-1		-1,928
- Compensation on hybrid capital				-25	-25
	-146	**3,309**	**-1**	**-25**	**3,137**
Non-cash changes					
Unrealised results:					
- Foreign exchange movement	21	1,509	-		1,530
- Fair value changes	12	1,858	-		1,870
Realised results	25	2,263	2		2,290
	58	**5,630**	**2**	**0**	**5,690**
Compensation distributed from Other reserves				25	25
Balance at 31 December 2019	**674**	**112,661**	**33**	**733**	**114,101**

37 Impairment of financial assets and off-balance sheet commitments

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

The following tables provide a breakdown of the financial assets subject to impairment and off-balance sheet commitments into the 3 impairment stages:
Stage 1: performing exposures without significant increase in credit risk (SICR) since initial recognition.
Stage 2: performing exposures with significant increase in credit risk since initial recognition.
Stage 3: non-performing exposures.

31-12-2020

		Gross carrying amount			Allowance for credit loss		
	Carrying amount	Performing		Non-performing	Performing		Non-performing
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets subject to impairment							
Cash and balances held with central banks	2,312	2,312	-	-	-	-	-
Amounts due from banks	120	120	0	-	0	0	-
Cash collateral posted	20,361	20,361	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,738	9,677	61	-	0	-1	-
Interest-bearing securities at amortised cost	7,880	7,714	172	-	-1	-5	-
Loans and advances	88,942	87,140	1,617	396	-9	-25	-175
Total	**129,353**	**127,324**	**1,850**	**396**	**-10**	**-31**	**-175**

31-12-2019

		Gross carrying amount			Allowance for credit loss		
	Carrying amount	Performing		Non-performing	Performing		Non-performing
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets subject to impairment							
Cash and balances held with central banks	1,272	1,272	-	-	-	-	-
Amounts due from banks	66	66	0	-	0	0	-
Cash collateral posted	14,643	14,643	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,222	9,166	56	-	0	-1	-
Interest-bearing securities at amortised cost	7,764	7,665	105	-	-1	-5	-
Loans and advances	88,279	86,742	1,440	290	-5	-31	-157
Total	**121,246**	**119,554**	**1,601**	**290**	**-6**	**-37**	**-157**

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

31-12-2020

	Nominal amount			Provision		
	Performing		Non-performing	Performing		Non-performing
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Off-balance sheet commitments						
Contingent liabilities	1,516	1	-	0	0	-
Revocable facilities	3,607	67	1	0	0	-
Irrevocable facilities	5,630	64	-	-2	-2	-
Total	**10,753**	**132**	**1**	**-2**	**-2**	**-**

31-12-2019

	Nominal amount			Provision		
	Performing		Non-performing	Performing		Non-performing
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Off-balance sheet commitments						
Contingent liabilities	1,612	1	-	0	0	-
Revocable facilities	3,630	126	8	0	0	-3
Irrevocable facilities	7,014	113	24	-1	-1	-
Total	**12,256**	**240**	**32**	**-1**	**-1**	**-3**

Movements in allowances and provisions for expected credit losses

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

2020

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-offs	Closing balance
Allowances						
Cash and balances held with central banks	-	-	-	-	-	-
Amounts due from banks	0	0	0	0	-	0
Financial assets at fair value through OCI	1	0	0	0	-	1
Interest-bearing securities at amortised cost	6	0	0	-1	-	5
Loans and advances	193	8	-6	15	-	210
	200	**8**	**-6**	**14**	**-**	**216**
Provision						
Off-balance sheet commitments	5	2	-5	2	-	4

2019

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-offs	Closing balance
Allowances						
Cash and balances held with central banks	-	-	-	-	-	0
Amounts due from banks	0	0	0	0	-	0
Financial assets at fair value through OCI	1	0	0	0	-	1
Interest-bearing securities at amortised cost	7	0	-2	1		6
Loans and advances	47	5	-3	149	-5	193
	55	**5**	**-5**	**150**	**-5**	**200**
Provision						
Off-balance sheet commitments	2	1	-1	3		5

Modifications of contractual cash flows

There have been no financial assets for which the contractual cash flows have been modified during 2020 while they had a loss allowance measured at an amount equal to lifetime expected credit loss (i.e. stage 2 or 3). No financial assets which were modified in previous reporting periods while they had a loss allowance measured at an amount equal to lifetime expected credit loss (stage 2 or 3) have been moved back to stage 1 during 2020.

Key inputs and assumptions

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

Probability of default

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

Loss given default

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

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

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

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

BNG Bank applies an expert judgement approach when determining the stage 3 impairment figures. The approach is performed on an instrument level by the Financial Restructuring & Recovery department.

Forward-looking macroeconomic information
Historical analysis are performed to identify the key macroeconomic variables, which are provided by the bank's economist on a quarterly basis. Expert judgement is applied. In 2020 the macroeconomic factors applied in determining the probability of default for non-securitisations are the nominal GDP, the unemployment rate, and the employment rate. We have changed from wage rate to employment rate so that the outcomes of the model are more predictable. For securitisations the applied macroeconomic factors are the house price index, the long term interest rate, and debt.

The COVID-19 pandemic has a major financial and social impact on the bank's clients. However, the pandemic has not yet resulted in additional material payment problems for the bank's clients. The deteriorated economic outlook following the outbreak of the COVID-19 pandemic did lead to an increase of the model-based 'point-in-time' probability of default (PD). In order to correctly indicate this deterioration in the impairment figures, an adjustment of the impairment model was necessary. The pandemic showed that the model had difficulties incorporating the cyclical nature of the macro-economic variables and shocks inherent to these variables. To avoid unrealistic results, BNG Bank implemented an additional component, the so-called Exponentially Weighted Moving Average (EWMA), which prevents shocks as a result of relevant data falling out of the forward looking window. For 2020, the applied EWMA in the non-secutarisations model was 50%. The applied EWMA in the secutarisations model was 0%, which means that the EWMA has no impact. Every half year the bank will evaluate the need for the EWMA and adjust the level, if necessary.

Non-securitisations

Macro economic variable	Horizon as at 31/12/2020	Horizon as at 31/12/2019
Gross Domestic Product (GDP) for The Netherlands	3 years	3 years
Unemployment rate for The Netherlands	3 years	3 years
Wage growth rate	-	3 years
Employment rate	3 years	-

Scenario	Weighting as at 31/12/2020	Weighting as at 31/12/2019
Base scenario	65%	70%
Upward scenario	5%	10%
Downward scenario	30%	20%

Securitisations

Macro economic variable	Horizon as at 31/12/2020	Horizon as at 31/12/2019
House price indices in the Euro area (17 countries)	3 years	3 years
Long-term interest rates in the Euro area (19 countries)	3 years	3 years
Debt (Credit to households and NPISHs) in the Euro area[1]	3 years	3 years

Scenario	Weighting as at 31/12/2020	Weighting as at 31/12/2019
Base scenario	65%	65%
Upward scenario	5%	10%
Downward scenario	30%	25%

1 Non-profit institutions serving households

Non-performing exposures

BNG Bank applies the following criteria to designate exposures as non-performing:
- BNG Bank considers that the obligor is unlikely to pay its credit obligations to the bank; and
- The obligor is past due 90 days or more on any material credit obligation to the bank.

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

Sensitivity analysis of credit loss allowances

In order to measure the sensitivity of the credit loss allowances to changes in the input factors, five different scenarios are used to (re)calculate the size of the credit loss allowances as at 31 December 2020.

Scenario A:

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

Scenario B:

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

Scenario C:

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

Scenario D:

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

Scenario E:

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

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

31-12-2020

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

31-12-2019

	Actual Balance	Scenario A (1 notch down)	Scenario B (LGD from 0% to 10%)	Scenario C (through-the-cycle PDs)
Allowances				
Cash and balances held with central banks	-	-	0	-
Amounts due from banks	0	0	0	0
Financial assets at fair value through OCI	1	1	1	1
Interest-bearing securities at amortised cost	6	6	7	4
Loans and advances	193	214	216	204
	200	**221**	**224**	**209**
Provision				
Off-balance sheet commitments	5	8	6	8

Hedging of risks with derivatives

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

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

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

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

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

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

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

The following table shows the maturity profile as at 31 December 2020 of all derivatives based on their notional amounts.

31-12-2020	Up to 1 year	1 to 5 years	Over 5 years	Total	31-12-2019 Up to 1 year	1 to 5 years	Over 5 years	Total
Derivatives involved in portfolio hedge accounting								
Interest rate swaps	6,529	24,845	75,673	107,047	4,305	23,813	69,303	97,421
Derivatives involved in micro hedge accounting								
Interest rate swaps	3,349	24,875	34,199	62,423	5,947	20,832	30,825	57,604
Cross-currency swaps	9,747	20,520	7,827	38,094	10,377	25,785	8,808	44,970
Derivatives not involved in hedge accounting								
Interest rate swaps	690	784	1,034	2,508	1,561	680	693	2,934
Cross-currency swaps	88	169	644	901	2,014	210	786	3,010
FX-swaps	7,985	-	-	7,985	8,878	-	-	8,878
Other derivatives	1,154	573	876	2,603	1,160	395	682	2,237
Total	**29,542**	**71,766**	**120,253**	**221,561**	**34,242**	**71,715**	**111,097**	**217,054**

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

	31-12-2020		31-12-2019	
	Notional amount	Fair value	Notional amount	Fair value
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	21,017	3,250	24,609	2,636
Derivatives involved in micro hedge accounting				
Interest rate swaps	25,298	2,538	38,916	2,912
Cross-currency swaps	20,169	2,285	33,340	3,961
Derivatives not involved in hedge accounting				
Interest rate swaps	1,092	40	2,016	39
Cross-currency swaps	524	158	542	180
FX-swaps	102	1	5,633	89
Other derivatives	340	268	102	16
Total derivatives stated as assets	**68,542**	**8,540**	**105,158**	**9,833**
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	86,030	25,937	72,812	20,660
Derivatives involved in micro hedge accounting				
Interest rate swaps	37,125	-1,542	18,688	161
Cross-currency swaps	17,925	2,003	11,630	937
Derivatives not involved in hedge accounting				
Interest rate swaps	1,416	362	918	360
Cross-currency swaps	377	235	2,468	427
FX-swaps	7,883	339	3,245	26
Other derivatives	2,263	-369	2,135	190
Total derivatives stated as liabilities	**153,019**	**26,965**	**111,896**	**22,761**

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2020, this collateral amounted to EUR 858 million (2019: EUR 1,137 million), all in cash.

With regard to derivatives, BNG Bank provided EUR 22,728 million in collateral in 2020 (2019: EUR 15,828 million), of which EUR 21,193 million in cash (2019: EUR 14,933 million) and EUR 1,535 million in interest-bearing securities (2019: EUR 895 million).

Fair value hedge accounting

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

31-12-2020

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

31-12-2019

	Gross carrying amount of hedged items	Accumulated amount of fair value adjustments on the hedged items or through OCI	Gains/Losses attributable to the hedged item	Gains/Losses attributable to the hedging instrument	Hedge ineffectiveness
Fair value hedges					
Micro fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	8,061	568	110	-94	16
Fixed rate bonds in Interest-bearing securities at AC	1,119	82	63	-65	-2
	9,180	**650**	**173**	**-159**	**14**
Micro fair value hedges (hedged items stated as liabilities)					
Fixed rate loans in Amounts due to banks	-1,952	-64	-31	32	1
Fixed rate bonds in Debt securities	-91,136	-4,127	-2,877	2,905	28
Fixed rate loans in Funds entrusted	-1,534	-13	-53	48	-5
	-94,622	**-4,204**	**-2,961**	**2,985**	**24**
Total micro fair value hedges	**-85,442**	**-3,554**	**-2,788**	**2,826**	**38**
Portfolio fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	1,095	172	23	-52	-29
Fixed rate bonds in Interest-bearing securities at AC	1,721	69	21	-21	0
Fixed rate loans in Loans and advances	76,116	16,393	4,926	-4,925	1
Total portfolio fair value hedges	**78,932**	**16,634**	**4,970**	**-4,998**	**-28**
Total fair value hedges	**-6,510**	**13,080**	**2,182**	**-2,172**	**10**

Cash flow hedge accounting

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

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

31-12-2019	Notional amount of hedging instruments	Gross carrying amount of hedging items		Changes in fair value of hedging		Reclassified as interest result calculated using the effective interest method
		Assets	Liabilities	Effective portion recognised in OCI	Hedge ineffectiveness recognised in profit or loss	
Cash flow hedges						
Micro cash flow hedges						
Cross currency swaps	4,056	35	-3,899	14	-3	14
Total cash flow hedges	**4,056**	**35**	**-3,899**	**14**	**-3**	**14**

Foreign exchange rates

The following table shows the weighted average FX rates for the major currencies of the final exchange of cross-currency swaps involved in a micro cash flow hedge accounting relationship as at 31 December 2020.

31-12-2020

FX rate	up to 1 year	1 to 5 years	over 5 years	Total
USD to EUR	0.82979	0.87726	0.83164	0.85573
GBP to EUR	1.23873	1.12878	1.33513	1.21779
AUD to EUR	0.70078	0.68672	0.64726	0.66535
CHF to EUR	0.77425	0.72366	0.69974	0.72621

31-12-2019

FX rate	up to 1 year	1 to 5 years	over 5 years	Total
USD to EUR	0.86236	0.85544	0.80130	0.85159
GBP to EUR	-	1.19947	1.41143	1.27521
AUD to EUR	0.73000	0.72159	0.65528	0.67352
CHF to EUR	0.67701	0.80648	0.66192	0.70652

Fair value of financial instruments

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

Fair value hierarchy

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

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

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

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

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

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

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

	31-12-2020		31-12-2019	
	Balance sheet-value	Fair value	Balance sheet-value	Fair value
Cash and balances held with central banks	2,312	2,312	1,272	1,272
Amounts due from banks	120	129	66	66
Cash collateral posted	20,361	20,361	14,643	14,643
Financial assets at fair value through the income statement	1,452	1,452	1,764	1,764
Derivatives	8,540	8,540	10,004	10,004
Financial assets at fair value through other comprehensive income	9,738	9,738	9,222	9,222
Interest-bearing securities at amortised cost	7,880	8,012	7,764	7,897
Loans and advances	88,942	110,373	88,279	106,012
Total financial assets	**139,345**	**160,917**	**133,014**	**150,880**
Amounts due to banks	12,221	12,147	1,933	1,928
Cash collateral received	858	858	1,137	1,137
Financial liabilities at fair value through the income statement	656	656	674	674
Derivatives	26,965	26,965	22,651	22,651
Debt securities	108,615	109,356	112,661	113,466
Funds entrusted	5,599	5,775	5,575	5,759
Subordinated debt	35	45	33	45
Total financial liabilities	**154,949**	**155,802**	**144,664**	**145,660**

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

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

2020

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

2019

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through the income statement	102	1,221	441	1,764
Derivatives	-	9,999	5	10,004
Financial assets at fair value through other comprehensive income	9,141	81	-	9,222
Total financial assets	**9,243**	**11,301**	**446**	**20,990**
Financial liabilities at fair value through the income statement	113	561	-	674
Derivatives	-	22,647	4	22,651
Total financial liabilities	**113**	**23,208**	**4**	**23,325**

Significant movements in fair value level 3 items

2020

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

2019

		Value through the income statement		Derivatives (states as assets)		Derivatives (states as liabilities)
Opening balance		**370**		**8**		**8**
Results through the income statement:						
- Interest result	9		7		7	
- Unrealised result on financial transactions	71		-6		-7	
- Realised result on financial transactions	-		-		-	
		80		1		0
- Unrealised value adjustments via the revaluation reserve		-		-		-
- Investments		-		-		-
- Cash flows		-9		-4		-4
Closing balance		**441**		**5**		**4**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded in the market. Therefore, the observable market data available for similar securities is not fully representative of the current fair value. The fair value of these transactions is determined on the basis of public market data that is adjusted using significant input variables not publicly observable in the market.

Due to the successful completion in February 2020 of a 'true sale and buyback' of a major inflationlinked bond purchased in 2007, this bond is now valued at the amortised cost. This caused the decline of the level 3 exposure at fair value in 2020.

Input variables which are not publicly observable in the market

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

These input variables were estimated by management based on data which is not publicly observable in the market and remained unchanged compared to 2019.

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

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

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

	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019
	Financial assets at fair value through the income statement		Derivatives (states as assets)		Derivatives (states as liabilities)		Total	
Balance sheet value	195	441	-	5	-	-4	195	442
Interest rate								
+ 10 basis points	-2	-10	-	-1	-	0	-2	-11
- 10 basis points	2	10	-	1	-	0	2	11
+ 100 basis points	-19	-84	-	-25	-	3	-19	-106
- 100 basis points	23	115	-	8	-	-1	23	122
Inflation rate								
+ 10 basis points	2	10	-	-	-	-	2	10
- 10 basis points	-2	-9	-	-	-	-	-2	-9
+ 100 basis points	21	110	-	-	-	-	21	110
- 100 basis points	-18	-82	-	-	-	-	-18	-82
Credit and liquidity risk spreads								
+ 10 basis points	-2	-10	-	0	-	0	-2	-10
- 10 basis points	2	10	-	0	-	0	2	10
+ 100 basis points	-20	-85	-	20	-	5	-20	-60
- 100 basis points	24	116	-	-1	-	-7	24	108
Total significant input factors								
+ 10 basis points	-2	-10	-	-1	-	1	-2	-10
- 10 basis points	3	10	-	1	-	-1	3	10
+ 100 basis points	-21	-87	-	-6	-	5	-21	-88
- 100 basis points	26	121	-	7	-	-7	26	121

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

The major part of the assets in Level 3 (EUR 185 (2019: EUR 431 million)) consists of so-called inflationlinked bonds, where the foreign currency risk, interest rate risk and inflation risk have been hedged using swaps. The default risk of these transactions is insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees were set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 39 million at year-end 2020 (year-end 2019: EUR 46 million negative).

The Derivatives (stated as liabilities) item features a Level 3 separated option linked to the French government interest rate. This option is hedged with a Level 3 swap including an option recognised under the Derivatives (stated as assets) item. The swap is sensitive to the euro swap rate and the French government interest rate and also to counterparty risk. These derivatives matured in 2020.

Fair value hierarchy of amortised cost transactions

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

31-12-2020

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

31-12-2019

	Level 1	Level 2	Level 3	Total
Cash and balances held with central banks	1,272	-	-	1,272
Amounts due from banks	4	55	7	66
Cash collateral posted	-	14,643	-	14,643
Interest-bearing securities at amortised cost	203	7,404	290	7,897
Loans and advances	1,079	96,625	8,308	106,012
Total financial assets	**2,558**	**118,727**	**8,605**	**129,890**
Amounts due to banks	-	1,928	-	1,928
Cash collateral received	-	1,137	-	1,137
Debt securities	89,385	22,922	1,159	113,466
Funds entrusted	2,433	-	3,326	5,759
Subordinated debt	-		45	45
Total financial liabilities	**91,818**	**25,987**	**4,530**	**122,335**

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

Risk section

Institutional risk management approach

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

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

Credit risk

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

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

	31-12-2020	31-12-2019
Balance sheet total	-160,359	149,689
-/- Derivatives	-8,540	-10,004
-/- Cash collateral posted	-20,361	-14,643
Total on-balance sheet exposure	**-189,260**	**125,042**
Total off-balance sheet exposure	**10,887**	**10,975**
Exposure value for derivatives	4,477	3,664
Exposure value for secured financing transactions	3	49
Total counterparty credit risk exposure	**4,480**	**3,713**
Total gross exposure	**-173,893**	**139,730**

As at 31 December 2020, the balance sheet value of the loans granted to or guaranteed by public authorities, the WSW Housing guarantee fund and the WfZ Healthcare guarantee fund in the Loans and advances balance sheet item totalled EUR 80,3 billion (2019: EUR 80.3 billion). The contingent liabilities and the irrevocable facilities are explained in the section ‘Off-balance sheet commitments’. Section 'Encumbered financial assets and liabilities' indicates which parts of the financial assets are not freely disposable.

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

Cumulative changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 120 million negative (2019: EUR 88 million negative) and amounted to EUR 28 million negative over 2020 (2019: EUR 29 million positive). Cumulative changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 6 million positive (2019: EUR 10 million positive) and amounted to EUR 4 million negative for 2020 (2019: EUR 1 million negative). Financial liabilities at fair value through the income statement are recognised on the relevant funding curve including a mark-up for ‘own credit risk’ in the accounts.

Counterparty risk

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

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

Statutory market parties

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

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

Credit risk models

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

The significance of the internal ratings is the following:

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

Forborne exposures

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

31-12-2020

		Of which: Forborne		
	Total exposure	Gross of impairment	Net of impairment	**in % of total**
Financial assets (excl. derivatives)				
Cash and balances held with central banks	2,312	-	-	0.0%
Amounts due from banks	120	-	-	0.0%
Cash collateral posted	20,361	-	-	0.0%
Financial assets at fair value through the income statement	1,452	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,738	-	-	0.0%
Interest-bearing securities at AC	7,880	-	-	0.0%
Loans and advances	88,942	392	351	0.4%
	130,805	**392**	**351**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	1,517	-	-	0.0%
Revocable facilities	3,676	8	8	0.2%
Irrevocable facilities	5,694	5	5	0.1%
	10,887	**13**	**13**	**0.1%**

31-12-2019

		Of which: Forborne		
	Total exposure	Gross of impairment	Net of impairment	**in % of total**
Financial assets (excl. derivatives)				
Cash and balances held with central banks	1,272	-	-	0.0%
Amounts due from banks	66	-	-	0.0%
Cash collateral posted	14,643	-	-	0.0%
Financial assets at fair value through the income statement	1,764	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,222	-	-	0.0%
Interest-bearing securities at AC	7,764	-	-	0.0%
Loans and advances	88,279	346	320	0.4%
	123,010	**346**	**320**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	1,613	-	-	0.0%
Revocable facilities	3,764	5	5	0.1%
Irrevocable facilities	7,151	10	10	0.1%
	12,528	**15**	**15**	**0.1%**

The financial assets of which contractual terms have been changed as a result of the debtor's unfavourable financial position amounted to EUR 405 million as at 31 December 2020 (year-end 2019: EUR 361 million). The share of forborne exposure in the total portfolio is 0.3% (year-end 2019: 0.3%) and concerns 16 debtors (year-end 2019: 9 debtors). Forbearance is used as a backstop indicator in the impairment staging assessment, as a result of which all forborne exposures are classified in impairment stage 2.

Non-performing exposures

Please refer to Note 37 (Impairment of financial assets and off-balance sheet commitments) for disclosure of BNG Bank's definition of non-performing exposures. An exposure classified as non-performing can once again be regarded as performing if all of the following conditions are met:

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

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

31-12-2020

		Of which: Non-performing		
	Total exposure	Gross of impairment	Net of impairment	**in % of total**
Financial assets (excl. derivatives)				
Cash and balances held with central banks	2,312	-	-	0.0%
Amounts due from banks	120	-	-	0.0%
Cash collateral posted	20,361	-	-	0.0%
Financial assets at fair value through the income statement	1,452	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,738	-	-	0.0%
Interest-bearing securities at amortised cost	7,880	-	-	0.0%
Loans and advances	88,942	396	220	0.4%
	130,805	**396**	**220**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	1,517	-	-	0.0%
Revocable facilities	3,676	1	1	0.0%
Irrevocable facilities	5,694	-	-	0.0%
	10,887	**1**	**1**	**0.0%**

31-12-2019

		Of which: Non-performing		
	Total exposure	Gross of impairment	Net of impairment	**in % of total**
Financial assets (excl. derivatives)				
Cash and balances held with central banks	1,272	-	-	0.0%
Amounts due from banks	66	-	-	0.0%
Cash collateral posted	14,643	-	-	0.0%
Financial assets at fair value through the income statement	1,764	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,222	-	-	0.0%
Interest-bearing securities at amortised cost	7,764	-	-	0.0%
Loans and advances	88,279	290	134	0.3%
	123,010	**290**	**134**	**0.2%**
Off-balance sheet commitments				
Contingent liabilities	1,613	-	-	0.0%
Revocable facilities	3,764	8	8	0.2%
Irrevocable facilities	7,151	23	21	0.3%
	12,528	**31**	**29**	**0.3%**

Non-performing exposure totalled EUR 396 million as at 31 December 2020 (year-end 2019: EUR 321 million). The increase of this exposure in 2020 is mainly caused by the transfer of one obligor from Stage 2 to Stage 3, as the result of an individual assessment without taking the implicit guarantee of the holding company into account. The total non-performing exposure is still low in relation to the total exposure of the portfolio of BNG Bank. At year-end 2020 the share of non-performing exposure in the total portfolio is 0.3% (year-end 2019: 0.2%) and concerns 12 debtors (year-end 2019: 10 debtors). BNG Bank has received government guarantees totalling EUR 38 million (2019: EUR 36 million) with respect to non-performing exposures.

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

	2020	2019
Total non-performing exposure as at 1 January	**321**	**57**
Increase in existing non-performing exposures	0	0
Shift from performing to non-performing exposure	125	301
Shift from non-performing to performing exposure	-	-22
Repayments on and settlement of non-performing exposure	-49	-15
Total non-performing exposure as at 31 December	**397**	**321**

Maturity analysis of performing past due exposures

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

	31-12-2020	31-12-2019
Less than 31 days	12	2
31 through 60 days	0	-
61 through 90 days	-	-
Over 90 days	-	-
Closing balance	**12**	**2**

Moratoria

Due to the COVID-19 pandemic banks within The Netherlands joined forces to support customers by issuing payment holidays. BNG Bank joined a moratorium for clients with business lending products with an exposure below EUR 2,5 million. The following table gives an overview of the exposures related to this moratorium as at 31 December 2020. Exposures for which a payment holiday is given are not marked as forborne and all are performing. In The Netherlands a Public Guarantee Scheme or legislative moratoria are not applicable. The maturity date of this moratorium has not yet expired.

31-12-2020	Number of obligors	Gross carrying amount					
			Residual maturity of moratoria				
			<= 3 months	> 3 <= 6 months	> 6 <= 9 months	> 9 <= 12 months	> 1 year
Loans and advances for which moratorium was offered	31	20					
Loans and advances subject to moratorium (granted)	11	7	0	0	0	0	7
- of which: Households		5	0	0	0	0	5
- of which: Collateralised by residential immovable property		-	-	-	-	-	-
- of which: Non-financial corporations		0	-	0	-	-	0
- of which: Small and Medium-sized Enterprises		-	-	-	-	-	-
- of which: Collateralised by commercial immovable property		-	-	-	-	-	-

Loans and advances subject to the moratorium are not impaired and there are no negative changes in fair value due to credit risk.

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

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

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

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

			31-12-2020			31-12-2019
	Mtm value	Add-on	Total	Mtm value	Add-on	Total
Credit equivalents of derivatives on the asset side of the balance sheet						
Interest contracts	2,815	689	3,504	1,986	755	2,741
Currency contracts	147	826	973	23	879	902
Total	**2,962**	**1,515**	**4,477**	**2,009**	**1,634**	**3,643**

At year-end 2020, the risk-weighted credit equivalent of the derivatives portfolio totalled EUR 1,202 million (2019: EUR 1,146 million).

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

31-12-2020

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

31-12-2019

	Derivatives (states as assets)	Derivatives (states as liabilities)	Net
Netting of financial assets and financial liabilities (derivatives)			
Gross value of financial assets and liabilities before balance sheet netting	12,184	-24,831	**-12,647**
Gross value of the financial assets and liabilities to be netted	-2,180	2,180	**0**
Balance sheet value of financial assets and liabilities (after netting)	**10,004**	**-22,651**	**-12,647**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	-7,802	7,802	**0**
Exposure before collateral	**2,202**	**-14,849**	**-12,647**
Value of financial collateral that does not comply with IAS 32 for netting purposes	-1,137	14,632	**13,495**
Net exposure	**1,065**	**-217**	**848**

At year-end 2020, the collateral posted for derivative transactions amounted to EUR 21.2 billion (2019: EUR 14.9 billion). The deterioration of BNG Bank's rating by three notches would not increase this amount (2019: EUR 34 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in collateral obligations.

31-12-2020

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

Investments in interest-bearing securities (IBS)

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

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

31-12-2020

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Liquidity portfolio							
Level I – Government/ Supranational	5,784	1,223	170		46	7,223	8,057
Level I B – Covered bonds	1,305					1,305	1,360
Level II A – Government/ Supranational		56				56	108
Level II B – Corporates			25			25	25
Level II B – RMBS	642					642	647
	7,731	**1,279**	**195**	**0**	**46**	**9,251**	**10,197**
ALM portfolio							
Initial margin	405	1008	50			1,463	1650
RMBS	213	253	92	4	20	582	582
ABS		53	87	25	52	217	213
RMBS-NHG	3,297	77	139			3,513	3,516
Other	272	365	513	253	72	1,475	2,285
	4,187	**1,756**	**881**	**282**	**144**	**7,250**	**8,246**
Total	**11,918**	**3,035**	**1,076**	**282**	**190**	**16,501**	**18,443**

31-12-2019

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Liquidity portfolio							
Level I – Government/ Supranational	5,351	2,204	220	135	46	7,956	9,125
Level I B – Covered bonds	1,370					1,370	1,428
Level II A – Government/ Supranational		59				59	102
Level II B – Corporates			25			25	25
Level II B – RMBS	1,061					1,061	1,068
	7,782	**2,263**	**245**	**135**	**46**	**10,471**	**11,748**
ALM portfolio							
RMBS	20	295	127		23	465	463
ABS		58	117	28	55	258	254
RMBS-NHG	3,008	89	159			3,256	3,260
Other	473	380	442	260	75	1,630	2,333
	3,501	**822**	**845**	**288**	**153**	**5,609**	**6,310**
Total	**11,283**	**3,085**	**1,090**	**423**	**199**	**16,080**	**18,058**

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

Transfer of financial assets without derecognition

At year-end 2020 and 2019, BNG Bank has no transferred interest-bearing securities in repurchase transactions without derecognition. At year-end 2020, BNG Bank has no financial assets in its portfolio that were transferred and derecognised and in which it has a continuing involvement. Financial assets are not removed from the balance sheet if BNG Bank retains the credit risks and the rights to the underlying cash flows.

Concentration risk

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

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

The bank is exposed to foreign country risk as a result of transactions with financial counterparties to hedge market risks arising from lending and funding activities, as a result of its liquidity portfolio and, to a limited extent, in the context of lending and investments in the public sector abroad.

The bank invests in foreign securities for its liquidity portfolio because the vast majority of its loan portfolio already relates to the Netherlands. Foreign lending is in most cases also directly or indirectly guaranteed by the relevant governments.

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

Long-term foreign exposure

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

31-12-2020

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Supranational institutions	1,240	149				1,389	1,417
Multilateral development banks	125					125	144
Austria		501				501	539
Belgium		273	78	131		482	663
Denmark	40					40	40
Finland		548				548	567
France	605	801	92	5		1,503	1,811
Germany	1,668	30	17			1,715	1,978
Italy		13	17		54	84	81
Luxembourg	215					215	218
Portugal			48	50	100	198	199
Spain	61	240	272	4	66	643	745
United Kingdom	409	364	283	249	50	1,355	2,154
United States	20					20	22
Total	**4,383**	**2,919**	**807**	**439**	**270**	**8,818**	**10,578**

31-12-2019

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Supranational institutions	269	204				473	493
Multilateral development banks	405					405	434
Austria		471				471	521
Belgium		281		136		417	595
Denmark	90					90	91
Finland		486				486	543
France	496	806	100	5		1,407	1,678
Germany	1,453	30	54			1,537	1,815
Italy		19	18	135	60	232	234
Portugal			54	50	100	204	209
Spain	65	276	319		69	729	830
Switzerland			90			90	102
United Kingdom	609	380	301	261	54	1,605	2,291
United States	22					22	23
Total	**3,409**	**2,953**	**936**	**587**	**283**	**8,168**	**9,859**

The non-investment grade items (i.e. items with a rating below BBB-) mainly consist of exposures in so-called GIIPS countries. This largely concerns interest-bearing securities, including Covered bonds and RMBS transactions. The non-investment grade exposure in the United Kingdom concerns a limited number of private project financing schemes in the areas of infrastructure, education, energy and healthcare. The total fair value of foreign non-investment grade exposures in December 2020 amounted to EUR 287 million (year-end 2019: EUR 291 million).

Exposures divided to internal-/external rating

The following table provide an overview of all exposures subdivided to interal and external rating.

	31-12-2020				31-12-2019			
Loans and advances solvency-free	**On-balance exposures** (gross carrying amount)				**On-balance exposures** (gross carrying amount)			
	Performing		**Non-performing**	**Total**	**Performing**		**Non-performing**	**Total**
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	79,388	24	-	79,412	77,997	-	-	77,997
- Medium risk	33	438	-	471	592	264	-	856
- High risk	9	120	-	129	194	82	-	276
- Non-performing	-	-	158	158	-	-	36	36
- Not rated	2	310	-	312	108	544	-	652
Total	**79,432**	**892**	**158**	**80,482**	**78,891**	**890**	**36**	**79,817**

Loans and advances subject to capital requirements	31-12-2020 On-balance exposures (gross carrying amount)				31-12-2019 On-balance exposures (gross carrying amount)			
	Performing		Non-performing	Total	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	7,388	103	-	7,491	7,581	14	-	7,595
- Medium risk	86	387	-	473	245	79	-	324
- High risk	5	170	-	175	5	434	-	439
- Non-performing	-	-	361	361	-	-	254	254
- Not rated	167	4	-	171	20	23	-	43
Total	**7,646**	**664**	**361**	**8,671**	**7,851**	**550**	**254**	**8,655**

Interest-bearing securities	31-12-2020 On-balance exposures (gross carrying amount)				31-12-2019 On-balance exposures (gross carrying amount)			
	Performing		Non-performing	Total	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	17,391	100	-	17,491	16,750	28	-	16,778
- Medium risk	-	133	-	133	81	133	-	214
- High risk	-	-	-	-	-	-	-	-
- Non-performing	-	-	-	-	-	-	-	-
- Not rated	-	-	-	-	-	-	-	-
Total	**17,391**	**233**	**-**	**17,624**	**16,831**	**161**	**-**	**16,992**

Off-balance sheet exposures	31-12-2020 Notional amount				31-12-2019 Notional amount			
	Performing		Non-performing	Total	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	10,721	8	-	10,729	10,436	-	-	10,436
- Medium risk	15	100	-	115	220	31	-	251
- High risk	8	34	-	42	13	9	-	22
- Non-performing	-	-	1	1	-	-	25	25
- Not rated	-	-	-	-	48	199	-	247
Total	**10,744**	**142**	**1**	**10,887**	**10,717**	**239**	**25**	**10,981**

Risk classes	Ratings based on	
	Internal ratings	External rating
- Low risk	1-11	AAA - BBB
- Medium risk	12-13	BB
- High risk	14-17	B or lower
- Non-performing	18-19	

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

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

Due to the Brexit, BNG Bank transferred all cleared derivatives from UK-based clearing members to EU-based clearing members. The London Clearing House (LCH) is temporarily being exempted from changes in regulations due to the Brexit. This means that cleared derivatives, for now, can remain with the LCH and that it is still possible to clear swaps at the LCH. However, both under the condition that the clearing members involved are EU entities. Nevertheless, BNG Bank onboarded Eurex as EU-based clearing house. This way continuity and flexibility with regard to central clearing is granted. Bilateral limits with UK-based individual financial counterparties have been withdrawn and replaced by limits with EU-based individual financial counterparties. The bilateral swaps with these UK-based individual financial counterparties are not yet transferred as this will trigger the clearing obligation. Awaiting the temporary suspension of this clearing obligation by the European regulator, the transferal to EU-based individual financial counterparties is to be executed later in 2021.

Market risk

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

Interest rate risk
The bank's most important interest rate risk is the 'outright risk' to the interest rate swap curve, which is determined excluding the impact of spreads. This means that changes in spreads, such as credit spreads, CVA/DVA and cross currency basis spreads do not influence the interest rate risk position and hedging. There is no material presence of early redemption options in BNG Bank's regular loan portfolio 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.

The limits with respect to interest rate risk were not breached in 2020. In the bank's opinion, its interest rate risk management was adequate, compliant with the regulatory standards and within the limits as defined in the bank's risk appetite and risk policies. The table below outlines the Earnings at Risk as per end of 2020 in a scenario with an instantaneous parallel shock of plus 100 basis points for the 1-year and 2-year horizon. However, the most negative or least positive impact usually can be seen in the scenario with an instantaneous parallel shock of minus 100 basis points, the results of which are shown for 2019. The main reason for this switch is the participation in TLTRO. This is a large liability repricing in the shortest bucket, leading to a significant positive effect in the downward scenario.

Earnings at risk (in millions of euros)	**2020**	**2019**
Horizon		
1 year	21	30
2 years	35	26

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 specified in its policy 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 2020 and 2019 these limits were not breached.

Volatility risk
In managing its interest rate risk exposure, the bank allows itself a very limited range for assuming volatility risk to support the active interest rate position. This range is limited and monitored by the Risk Management department on a daily basis. During 2020 no additional volatility risk was assumed to support the active interest rate position.

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

Spread risk

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

Index risk

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

Liquidity and funding risk

Liquidity risk is defined as the existing or future threat to the institution's capital and earnings due to the possibility that it will not be able at any moment to fulfil its payment obligations, without incurring any unacceptable costs or losses. The public sector consists largely of institutions with a long-term investment horizon. This means that assets frequently have long maturities, which can be in excess of 25 years. As BNG Bank is not able to attract funding in large volumes for these maturities, a limited funding mismatch is accepted. In order to refinance at acceptable cost, also in times of stress, BNG holds sufficient liquidity buffers.

Liquidity risk

BNG Bank wants to provide a stable presence in the capital markets, because the bank wants to continue to meet the demand for credit even in difficult times. It also pursues a prudent liquidity policy to ensure that it can meet its obligations at all times. In this context, ongoing access to the money and capital markets is essential, along with the ongoing maintenance of attractive, varied and sufficiently large issuance programmes for investors. In addition, buffers are required in order to have access to liquidity in times of stress. One such buffer is formed by assets held explicitly for liquidity purposes, known as the liquidity portfolio. The management of the size and composition of this portfolio is one of the liquidity measures to comply with the requirement under the CRR to have an LCR of at least 100%. BNG Bank also holds an ample quantity of collateral with the ECB, which enables it to obtain short-term funding immediately. Since most of the bank's assets could serve as collateral at the ECB, this collateral may be further extended in the event of prolonged stress. The size of both buffers is tested in the liquidity stress tests, which are monitored on a monthly basis. Furthermore, the funding plan and corresponding planned liquidity gap is tested in an adverse stress scenario for the LCR and NSFR ratios. The bank considers its liquidity management to have been adequate in 2019 and that the strength of the bank's liquidity position is both amply sufficient and in compliance with the regulatory standards and limits set by the ALCO. As at end of 2020, the LCR ratio amounted to 133% (2019: 158%) and the NSFR ratio amounted to 122% (2019: 126%).

Funding risk

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

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

The amounts featured in the table below represent the non-discounted future cash flows of financial assets and liabilities. Because these amounts are non-discounted, these are different to the amounts in the balance sheet. For the maturity analysis of issued guarantees and irrevocable commitments, see the 'Off-balance sheet commitments' section.

31-12-2020

	Up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	2,312				2,312
Amounts due from banks	9	7	47	68	131
Cash collateral posted	20,391				20,391
Financial assets at fair value through the income statement	22	39	244	1,208	1,513
Financial assets at fair value through other comprehensive income	232	279	3,979	4,998	9,488
Interest-bearing securities at amortised cost	434	576	4,417	2,919	8,346
Loans and advances	6,956	8,960	32,145	58,933	106,994
Current tax assets		1			1
Other assets	150				150
Total financial assets (excluding derivatives)	**30,506**	**9,862**	**40,832**	**68,126**	**149,326**
Amounts due to banks	-657	-84	-10,857	-420	-12,018
Cash collateral received	-858				-858
Financial liabilities at fair value through the income statement	-27	-67	-195	-390	-679
Debt securities	-14,352	-9,101	-48,912	-42,180	-114,545
Funds entrusted	-3,078	-1,196	-695	-804	-5,773
Subordinated debt	-1		-22	-22	-45
Other liabilities	-188	-20			-208
Total financial liabilities (excluding derivatives)	**-19,161**	**-10,468**	**-60,681**	**-43,816**	**-134,126**
Gross balanced derivatives					
Assets amounts receivable	4,168	1,681	14,298	14,260	34,407
Assets amounts payable	-3,333	-653	-10,284	-5,683	-19,953
Derivatives stated as assets	**835**	**1,028**	**4,014**	**8,577**	**14,454**
Liabilities amounts receivable	8,501	5,098	10,094	4,126	27,819
Liabilities amounts payable	-9,424	-6,799	-17,290	-19,786	-53,299
Derivatives stated as liabilities	**-923**	**-1,701**	**-7,196**	**-15,660**	**-25,480**
Grand total	**11,257**	**-1,279**	**-23,031**	**17,227**	**4,174**

31-12-2019

	Up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	1,272	-	-	-	1,272
Amounts due from banks	15	10	32	12	69
Cash collateral posted	14,649	-	-	-	14,649
Financial assets at fair value through the income statement	22	46	279	1,806	2,153
Financial assets at fair value through other comprehensive income	163	421	4,774	3,825	9,183
Interest-bearing securities at amortised cost	325	475	3,444	4,154	8,398
Loans and advances	8,340	8,638	34,316	56,565	107,859
Current tax assets	-	30	-	-	30
Other assets	130	-	-	-	130
Total financial assets (excluding derivatives)	**24,916**	**9,620**	**42,845**	**66,362**	**143,743**
Amounts due to banks	-1,337	-68	-96	-443	-1,944
Cash collateral received	-1,138				-1,138
Financial liabilities at fair value through the income statement	-14	-6	-217	-503	-740
Debt securities	-17,172	-13,493	-47,114	-44,700	-122,479
Funds entrusted	-2,764	-267	-1,816	-1,023	-5,870
Subordinated debt	-1		-22	-22	-45
Other liabilities	-53				-53
Total financial liabilities (excluding derivatives)	**-22,479**	**-13,834**	**-49,265**	**-46,691**	**-132,269**
Gross balanced derivatives					
Assets amounts receivable	8,516	8,534	20,483	19,873	57,406
Assets amounts payable	-7,402	-6,479	-15,170	-11,513	-40,564
Derivatives stated as assets	**1,114**	**2,055**	**5,313**	**8,360**	**16,842**
Liabilities amounts receivable	6,609	1,132	8,826	6,422	22,989
Liabilities amounts payable	-7,430	-2,751	-15,482	-20,105	-45,768
Derivatives stated as liabilities	**-821**	**-1,619**	**-6,656**	**-13,683**	**-22,779**
Grand total	**2,730**	**-3,778**	**-7,763**	**14,348**	**5,537**

Encumbered and unencumbered financial assets

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

31-12-2020

	Encumbered	Unencumbered	Total
Cash and balances held with central banks		2,312	2,312
Amounts due from banks		120	120
Cash collateral posted	20,361		20,361
Financial assets at fair value through the income statement		1,452	1,452
Derivatives		8,540	8,540
Financial assets at fair value through other comprehensive income	1,776	7,962	9,738
Interest-bearing at amortised cost	726	7,154	7,880
Loans and advances	15,375	73,567	88,942
Value adjustments on loans in portfolio hedge accounting		20,816	20,816
Non-financial assets		198	198
Total	**38,238**	**122,121**	**160,359**
Average (total) in 2020	**34,554**	**136,417**	**170,971**

31-12-2019

	Encumbered	Unencumbered	Total
Cash and balances held with central banks	-	1,272	1,272
Amounts due from banks	-	66	66
Cash collateral posted	14,643		14,643
Financial assets at fair value through the income statement	-	1,764	1,764
Derivatives	-	10,004	10,004
Financial assets at fair value through other comprehensive income	3,520	5,702	9,222
Interest-bearing at amortised cost	689	7,075	7,764
Loans and advances	428	87,874	88,302
Value adjustments on loans in portfolio hedge accounting	-	16,462	16,462
Non-financial assets	-	207	207
Total	**19,280**	**130,426**	**149,706**
Average (total) in 2019	**22,562**	**140,260**	**162,822**

Capital and solvency

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

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

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

Developments
As at December 2020, the fully CRR/CRD IV Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were respectively 33%, 39% and 39%. All capital ratios were well above regulatory minimum requirements.

BNG Bank is required in 2021 to meet a minimum CET1 ratio of 10.25%, composed of a SREP requirement of 6.75% (4.5% Pillar 1 requirement and 2.25% Pillar 2 requirement), an Other Systemic Important Institution buffer (OSII) of 1.00% and a capital conservation buffer (CCB) of 2.5%. BNG Bank amply meets the requirements. The Overall Capital Requirement level for BNG Bank is 13.75%.

In 2011, BNG Bank lowered its dividend distribution policy to 25% in order to meet the additional capital requirements introduced by Basel III. In 2019 BNG Bank increased its dividend distribution policy to 50%. BNG Bank did not change this policy in 2020.

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

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

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

Capital structure

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

The two tables on the next pages show the structure of the regulatory capital. The tables present the capital.

31-12-2020	Capital	IFRS Equity
Paid-up capital	139	139
Share premium	6	6
Retained earnings from previous years	3,712	3,712
Unappropriated profit		221
Accumulated other comprehensive income		
- Cash flow hedge reserve	11	11
- Cost of hedging	184	184
- Own credit adjustment	5	5
- Revaluation reserve	86	86
Common equity Tier 1 (CET1) capital before regulatory adjustments	**4,143**	**4,364**
Adjustments to CET1 capital as a result of prudential filters:		
- Distributable dividend (previous year)	-71	
- Cash flow hedge reserve	-11	
- Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	0	
- Own credit risk for Financial liabilities at fair value through the income statement	-5	
- Value adjustments due to the prudential valuation requirements	-5	
- Intangible assets	-	
- Expected credit loss allowance of Financial assets at fair value through OCI	-1	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	-	
CET1 capital	**4,050**	
Additional Tier 1 capital:	733	733
Tier 1 capital	**4,783**	
Total equity	**4,783**	**5,097**

31-12-2019

	Capital	IFRS Equity
Paid-up capital	139	139
Share premium	6	6
Retained earnings from previous years	3,567	3,567
Unappropriated profit		163
Accumulated other comprehensive income		
- Cash flow hedge reserve	13	13
- Cost of hedging	174	174
- Own credit adjustment	8	8
- Revaluation reserve	84	84
Common equity Tier 1 (CET1) capital before regulatory adjustments	**3,991**	**4,154**
Adjustments to CET1 capital as a result of prudential filters:		
- Cash flow hedge reserve	-13	
- Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	-1	
- Own credit risk for Financial liabilities at fair value through the income statement	-8	
- Value adjustments due to the prudential valuation requirements	-5	
- Intangible assets	-4	
- Expected credit loss allowance of Financial assets at fair value through OCI	-1	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	0	
CET1 capital	**3,959**	
Additional Tier 1 capital:	733	733
Tier 1 capital	**4,692**	
Total equity	**4,692**	**4,887**

Prudential filters
BNG Bank applies the following prudential filters to the CET1 capital:
- The cash flow hedge reserve is eliminated.
- The benefits arising from own credit risk (DVA) in derivatives transactions are eliminated.
- The benefits arising from 'own credit risk' in relation to obligations classified as Financial liabilities at fair value through the income statement are eliminated.
- Due to the regulations on prudent valuation, an adjustment is calculated in relation to the balance sheet valuation of assets and liabilities that are carried at fair value
- The investments in the development of software is activated and amortised over three years. After a correction for 'deferred tax', the total of these intangible assets is deducted.
- The expected credit loss allowance of Financial assets at fair value through OCI.

Deductible items
In 2018, BNG Bank opted to reduce the CET1 capital by securitisation positions that are eligible for 1,250% solvency weighting. In 2020, there were no securitisation positions with a solvency rating of 1,250%.

Adjustments in CRD IV/CRR transition phase

The portion of the revaluation reserve related to Financial assets at fair value through OCI are fully included in the CET1 capital in 2020 and 2019.

Additional Tier 1 capital

For a clarification, please refer to note 22 of the Notes to items of the consolidated financial statements.

Related parties

Transactions with related parties
Transactions with related parties were made on terms equivalent to those that prevail in arm's length.

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

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

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

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

	31-12-2020	31-12-2019
State of the Netherlands		
Direct exposure in the form of purchased government securities	1,325	1,696
Lending with direct guarantees from the State	717	648
Lending with indirect guarantees from the State (WSW/WFZ)	45,327	43,830
Subsidiaries		
Lending to subsidiaries	95	108
Credit balances held by subsidiaries	25	13
Off-balance sheet commitments to subsidiaries	-	7
Associates, joint ventures and joint operations		
Lending to associates, joint ventures and joint operations	66	99
Credit balances held by associates, joint ventures and joint operations	8	9
Off-balance sheet commitments to associates, joint ventures and joint operations	56	31

BNG Bank's principal decision-making bodies

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

Remuneration

Since 2020, BNG Bank's remuneration policy consists solely of fixed remuneration components. The total remuneration granted to 'Identified Staff', i.e. individuals with direct influence on the bank's policy and risks, was EUR 5.5 million in 2020 (2019: EUR 5 million). The Identified Staff comprises 33 individuals in 2020 (2019: 31).

A part of the variable remuneration, which has been granted before 2020, was conditional. Following reassessment, for the Executive Board members this portion will be paid after three years unless the achievement of the associated targets is found to have jeopardised BNG Bank's long-term continuity. In case the Identified Staff is granted an amount of variable remuneration exceeding a monthly salary or EUR 10,000 or both, 40% of the variable remuneration is deferred over a three year period. Annually, one third of the deferred amount will be granted. No employee received a total remuneration exceeding EUR 1 million in 2020 (2019: none).

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

(amounts in thousands of euros)	2020			2019		
	Fixed remuneration	Variable remuneration	Total	Fixed remuneration	Variable remuneration	Total
Executive Board members	1,043	-	1,043	1,018	-	1,018
Senior management	2,563	-	2,563	2,255	81	2,336
Other identified staff	1,903	-	1,903	1,613	89	1,702
Total	**5,509**	**-**	**5,509**	**4,886**	**170**	**5,056**

In addition, the bank pays a monthly employer's pension contribution. Since 1 January 2015, pension accrual over salary in excess of EUR 100,000 is no longer possible under the current ABP pension plan. This means that pension accrual is capped. In 2020 this amount was capped at a income of EUR 110,111. As a consequence of this cap for tax purposes and the lower pension accrual, BNG Bank decided to compensate the employees concerned who were in the bank's employment on 1 January 2015 for lower pension accrual.

Remuneration of the Executive Board

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

Remuneration awarded to Executive Board members

	2020	2019	2020	2019	2020	2019
	Fixed remuneration		Compensation for pension accrual over salary >100K		Pension contributions	
G.J. Salden	316	309	-	-	27	25
O.J. Labe	341	333	29	29	28	26
J.C. Reichardt	386	377	35	35	30	27
Total	**1,043**	**1,019**	**64**	**64**	**85**	**78**

Deferred variable remuneration

	2020	2019	2018	2017
J.C. Reichardt	-	-	-	33

Deferred variable remuneration of former Executive Board members

	2020	2019	2018	2017
Heirs of C. van Eykelenburg	-	-	-	41

The remuneration awarded in the reporting period is the remuneration which has been recognised as an expense in full in the income statement. The income statement for 2020 includes EUR 1 million (2019: EUR 1 million) in remuneration and pension costs. The total short-term remuneration comprises the fixed remuneration and the compensation for pension accrual over salary in excess of EUR 100,000.

The Chair of the Executive Board received an allowance for business expenses of EUR 5,100 in 2020 (2019: EUR 5,100). The allowance for the other members of the Executive Board is EUR 3,900 in 2020 (2019: EUR 3,900).

Remuneration of the Supervisory Board
Effective from 1 January 2017 the remuneration of the Supervisory Board can increase by the same percentage as the increases under the Collective Labour Agreement for the Banking Industry. The total remuneration of the Supervisory Board increased by 2% in 2020 (2019: decrease of 4%). The policy is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit Committee & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chair of the Supervisory Board received an allowance in addition to the basic remuneration. These allowances are set out in the 'Remuneration of Supervisory Board members' statement. The Supervisory Board members received an expense allowance of EUR 1,000 (2019: EUR 1,000).

Members who served on one or more committees received an additional expense allowance per committee of EUR 500 (Audit Committee and Risk Committee) and EUR 250 (Remuneration Committee and Human Resource Committee), respectively.

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

	2020	2019
Ms M. Sint, Chair	49	48
J.C.M. van Rutte, Vice-chair	34	33
C.J. Beuving	38	37
H. Arendse (from 18 April 2019)	41	30
J.B.S. Conijn	34	33
Ms M.E.R. van Elst	34	33
Ms J. Kriens	31	30
J.J. Nooitgedagt (until 18 April 2019)	-	13
T.J.F.M. Bovens (until 18 April 2019)	-	9
Total	**261**	**266**

Off-balance sheet commitments

Contingent liabilities

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

	31-12-2020	31-12-2019
Contingent liabilities	1,517	1,613

Revocable facilities

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

	31-12-2020	31-12-2019
Revocable facilities	3,676	3,764

Irrevocable facilities

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

	31-12-2020	31-12-2019
Outline agreements concerning the undrawn part of credit facilities	3,405	5,230
Contracted loans and advances to be distributed in the future	2,289	1,921
Total	**5,694**	**7,151**

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

	31-12-2020	31-12-2019
Up to 3 months	494	687
3 to 12 months	370	583
1 to 5 years	1403	651
Over 5 years	22	0
Total	**2,289**	**1,921**

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 0.71% (2019: 1.2%). BNG Bank states these obligations at the underlying, not yet recorded, principal amount.

Encumbered financial assets and liabilities

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

	31-12-2020		31-12-2019	
	Nominal value	Collateral value	Nominal value	Collateral value
Type of collateral				
Collateral pledged to the central bank[1]	38,628	28,612	13,709	9,104
Securities provided in derivatives transactions	2,090	2,601	3,336	4,209
Cash deposited in relation to derivatives transactions	20,270	20,262	14,649	14,643
Given as collateral	**60,988**	**51,475**	**31,694**	**27,956**
Securities received in derivatives transactions	-	-	-	-
Cash received in relation to derivatives transactions	858	858	1,138	1,137
Received as collateral	**858**	**858**	**1,138**	**1,137**
Total	**60,130**	**50,617**	**30,556**	**26,819**

1 Of the total value of loans provided as collateral to the central bank, only a part has actually been used as collateral. At year-end 2020, the value of the collateral in use under the guarantee for clients' collection files amounted to EUR 11.345 million (year-end 2019: EUR 324 million).

Liability of board members

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

Events after the balance sheet date

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

Proposed profit appropriation

Amounts in millions of euros

	2020	2019
Net profit	**221**	**163**
Compensation on hybrid capital	-19	-21
Profit attributable to shareholders	**202**	**142**
Appropriation of profit attributable to the bank's shareholders is as follows:		
Appropriation to the 'Retained earnings' pursuant to Article 23(3) of the BNG Bank Articles of Association	14	14
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	21	**21**
Appropriation to the 'Retained earnings' pursuant to Article 23(4) of the BNG Bank Articles of Association	87	78
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	94	64
	181	**142**

The profit appropriation is based on the total net profit for 2020. The proposed dividends have no consequences for tax purposes. The compensation takes into account the EUR 25 million already paid on the hybrid capital in May 2020 charged to the Other reserves (EUR 19 million after tax).

Associates and joint ventures

	31-12-2020	31-12-2019
Associates		
Dataland BV, Rotterdam	30%	30%
A municipal non-profit initiative that aims to make information on registered properties – as held by municipalities and/or other public entities – available to a wide audience.		
Data B Mailservice Holding BV, Leek	45%	45%
Provision of services to, among others, public sector organisations, ranging from printing and mail services to payment-related, direct marketing and messaging services.		

	31-12-2020	31-12-2019
Joint ventures entered into by BNG Gebiedsontwikkeling BV		
Joint development and allocation of land with public authorities, at own expense and risk. The parties involved in the joint ventures have an equal voting right, which means that no single party has control.		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV te Nederweert	50%	50%
Development and allocation of land for industrial estates		
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor	80%	80%
Zenkeldamshoek Beheer BV, Goor	50%	50%
Development and allocation of land for industrial estates		
De Bulders Woningbouw CV	50%	50%
De Bulders Woningbouw BV	50%	50%
Development and allocation of land for industrial estates		
Ontwikkelingsmaatschappij Westergo CV, Harlingen	0%	50%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' CV, The Hague	50%	50%
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' BV, The Hague	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij ROM-S CV (Schelluinen), The Hague	50%	50%
ROM-S Beheer BV (Schelluinen) te The Hague	50%	50%
Development and allocation of land for industrial estates and car parking facilities		
Project Suijssenwaerde CV, The Hague	80%	80%
Project Suijssenwaerde Beheer BV, The Hague	50%	50%
Development and allocation of land for residential construction and recreational housing		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%

Continuation of previous page	31-12-2020	31-12-2019
Development and allocation of land for industrial estates		
SGN Bestaand Rijsenhout CV, The Hague	50%	50%
SGN Nieuw Rijsenhout CV, The Hague	50%	50%
SGN Advies CV, The Hague	43%	43%
SGN Bestaand Rijsenhout Beheer BV, The Hague	50%	50%
SGN Nieuw Rijsenhout Beheer BV, The Hague	50%	50%
SGN Advies BV Beheer, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Groep BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		
Regionaal bedrijvenpark Laarakker CV, Cuijk	50%	50%
Regionaal bedrijvenpark Laarakker BV, Cuijk	50%	50%
Development and allocation of land for industrial estates		
Wonen Werken Waterman BV, Rijsbergen	50%	50%
Wonen Werken Waterman CV, Rijsbergen	50%	50%
Development and allocation of land for residential construction and industrial estates		
De Jonge Voorn BV, Guisveld (Zaandam)	80%	80%
De Jonge Voorn CV, Guisveld (Zaandam)	80%	80%
Development and allocation of land for residential construction		

Summarised financial information

	2020	2019
Associates		
Balance sheet value of investment (note 8)	3	3
Value of the share in:		
Total assets	4	4
Total liabilities	1	1
Income	4	4
Result from continued operations	1	1
Equity	3	2
Comprehensive income	2	2

	2020	2019
Joint ventures entered into by BNG Gebiedsontwikkeling BV		
Balance sheet value of investment (note 8)	28	32
Value of the share in:		
Total assets	58	88
Total liabilities	29	46
Income	29	28
Result from continued operations	-1	-4
Equity	28	32
Comprehensive income	28	32

BNG Gebiedsontwikkeling (a wholly-owned BNG Bank subsidiary) invests in and develops land on its own account in collaboration with local authorities. This collaboration takes the form of a joint venture involving the use of limited partnerships. The risk incurred by BNG Bank is the total amount of capital invested in the participating interest, increased by further future payments obligations and retained profits. At year-end 2020, this risk amounted to EUR 28 million (2019: EUR 32 million), none of this is related to future payment obligations (2019: EUR 0 million).

Involvement in non-consolidated structured entities

	2020	2019
Securitisations		
Scope	21,623	24,630
Involvement in entity (balance sheet value/size in %)	21%	19%
Balance sheet value of interest/investment:		
Interest-bearing securities at amortised cost (from note 8)	4,635	4,667
Total balance sheet value	**4,635**	**4,667**
Maximum exposure	4,653	4,667
Ratio of balance sheet value vs maximum exposures	1	1
Amount in revenue per type:		
Fund return	N/A	N/A
Management fee	N/A	N/A
Interest revenue	2	5
Results from sales	0	-1
Total revenue	**2**	**4**

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

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

The Hague, 12 March 2021

Executive Board
Ms G.J. Salden, **Chair**
Ms C.A.M. van Atteveldt - Machielsen
O.J. Labe

Supervisory Board
Ms M. Sint, **Chair**
J.C.M. van Rutte, **Vice-chair**
H. Arendse
C.J. Beuving
J.B.S. Conijn
Ms M.E.R. van Elst
Ms J. Kriens

8.2 Company financial statements

Company balance sheet

Amounts in millions of euros		31-12-2020	31-12-2019
Assets	**NOTE**		
Cash and balances held with central banks	1	2,312	1,272
Amounts due from banks	2	120	66
Cash collateral posted	3	20,361	14,643
Financial assets at fair value through the income statement	4	1,452	1,764
Derivatives	5	8,540	10,004
Financial assets at fair value through other comprehensive income	6	9,738	9,222
Interest-bearing securities at amortised cost	7	7,880	7,764
Loans and advances	8	88,921	88,249
Value adjustments on loans in portfolio hedge accounting	9	20,816	16,462
Associates and joint ventures	10	54	55
Property & equipment	11	17	18
Current tax assets	17	1	29
Other assets	12	149	130
Total assets		**160,361**	**149,678**
Liabilities			
Amounts due to banks	13	12,221	1,933
Cash collateral received	14	858	1,137
Financial liabilities at fair value through the income statement	15	656	674
Derivatives	16	26,965	22,651
Debt securities	18	108,615	112,661
Funds entrusted	19	5,603	5,566
Subordinated debts	20	35	33
Current tax liabilities	17	-	-
Deferred tax liabilities	17	98	78
Other liabilities	21	213	58
Total liabilities		**155,264**	**144,791**
Equity			
Share capital		139	139
Share premium reserve		6	6
Legal reserves			
- Revaluation reserve		86	84
- Cash flow hedge reserve		11	13
- Reserve for fair value increases		186	129
Retained earnings		3,526	3,438
Own credit adjustment		5	8
Cost of hedging reserve		184	174
Net profit		221	163
Equity attributable to shareholders	22	**4,364**	**4,154**
Hybrid capital	22	733	733
Total equity	22	**5,097**	**4,887**
Total liabilities and equity		**160,361**	**149,678**

Company income statement

Amounts in millions of euros

	NOTE		2020		2019
- Interest revenue calculated using the effective interest method		4,513		4,887	
- Other interest revenue		362		633	
Total interest revenue		4,875		5,520	
- Interest expenses calculated using the effective interest method		4,313		4,992	
- Other interest expenses		85		94	
Total interest expenses		4,398		5,086	
Interest result	23		477		434
- Commission income		29		32	
- Commission expenses		4		2	
Commission result	24		25		30
Result on financial transactions	25		-17		37
Results from participating interest	26		1		-2
Other results			0		-1
Total income			**486**		**498**
Staff costs	27		47		39
Other administrative expenses	28		46		37
Depreciation	29		3		3
Other operating expenses			0		-
Total operating expenses			**96**		**79**
Net impairment losses on financial assets	30		16		153
Net impairment losses on associates and joint ventures			-		-
Contribution to resolution fund	31		8		8
Bank Levy	31		34		30
Total other expenses			**58**		**191**
Profit before tax			**332**		**228**
Income tax expense			111		65
Net profit			**221**		**163**
- of which attributable to the holders of hybrid capital			19		21
- of which attributable to shareholders			202		142

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

Company statement of comprehensive income

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

		2020		2019
Net profit		**221**		**163**
Recyclable results recognised directly in equity				
Changes in cash flow hedge reserve:				
- Unrealised value changes	-2		3	
- Realised value changes transferred to the income statement	0		-	
		-2		3
Changes in cost of hedging reserve				
- Unrealised value changes	20		- 50	
- Realised value changes transferred to the income statement	-10		2	
		10		- 48
Changes in the revaluation reserve for financial assets at fair value through other comprehensive income				
- Unrealised value changes	32		- 23	
- Realised value changes transferred to the income statement	-30		- 18	
		2		- 41
Total recyclable results		**10**		**-86**
Non-recyclable results recognised directly in equity:				
- Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL	-3		-1	
- Movement in actuarial results				
Total non-recyclable results		**-3**		**-1**
Results recognised directly in equity		**7**		**-87**
Total		**228**		**76**
- of which attributable to the holders of hybrid capital		19		21
- of which attributable to shareholders		209		55

Company cash flow statement

Amounts in millions of euros

	2020	2019
Cash flow from operating activities		
Profit before tax	332	228
Adjusted for:		
- Depreciation	3	3
- Impairments	16	153
- Unrealised results through the income statement	56	-15
Changes in operating assets and liabilities:		
- Changes in Amounts due from and due to banks (not due on demand)	10,463	-532
- Changes in Cash collateral posted and received	-5,864	-1,854
- Changes in repos and reverse repos	-	-
- Changes in Loans and advances	-637	-3,434
- Changes in Funds entrusted	184	-267
- Changes in Derivatives	-1,416	626
- Corporate income tax paid	-71	-86
- Other changes from operating activities	-212	-232
Net cash flow from operating activities	**2,854**	**-5,410**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
- Financial assets at fair value through the income statement	-146	-3
- Financial assets at fair value through other comprehensive income	-5,016	-1,776
- Interest-bearing securities at amortised cost	-1,862	-1,824
- Investments in associates and joint ventures	-	-
- Property and equipment	-2	-3
Disposals and redemptions pertaining to:		
- Financial assets at fair value through the income statement	496	45
- Financial assets at fair value through other comprehensive income	4,553	2,267
- Interest-bearing securities at amortised cost	1,821	1,516
Net cash flow from investing activities	**-156**	**222**
Cash flow from financing activities		
Amounts received on account of:		
- Financial liabilities at fair value through the income statement	-	12
- Debt securities	219,779	401,879
Amounts paid on account of:		
- Financial liabilities at fair value through the income statement	-8	-143
- Debt securities	-221,405	-396,691
- Subordinated debt	-	-
- Compensation on hybrid capital	-25	-25
- Dividend distribution to shareholders	-	-159
Net cash flow from financing activities	**-1,659**	**4,873**
Net change in cash and cash equivalents	**1,039**	**-315**
Cash and cash equivalents as at 1 January	1,276	1,591
Cash and cash equivalents as at 31 december	**2,315**	**1,276**

Continuation of previous page

Company cash flow statement

Cash and cash equivalents as at 31 December:		
- Cash and balances held with central banks	2312	1272
- Cash equivalents in the Amount due from banks item	4	4
- Cash equivalents in the Amount due to banks item	-1	0
	2,315	**1,276**
Notes to cash flow from operating activities		
Interest income received	5,875	5,881
Interest expenses paid	-5,549	-5,633
	326	**248**

Company statement of changes in equity

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

	Share capital	Share premium reserve	Revaluation reserve	Cashflow hedge reserve	Reserve for fair value increase	Own credit adjustment	Cost of hedging reserve	Retained earnings	Unappropriated profit	Equity attributable to shareholders	Hybrid capital	**Total**
Balance as at 01/01/2019	**139**	**6**	**125**	**10**	**83**	**9**	**222**	**3,664**	**0**	**4,258**	**733**	**4,991**
Total comprehensive income			**-41**	**3**		**-1**	**-48**		**163**	**76**		**76**
Transfer to reserve for fair value increases					46			-46		0		**0**
Dividend distribution to the bank's shareholders								-159		-159		**-159**
Compensation to holders of hybrid capital								-21		-21		**-21**
Balance as at 31/12/2019	**139**	**6**	**84**	**13**	**129**	**8**	**174**	**3,438**	**163**	**4,154**	**733**	**4,887**
Appropriation from previous year's profit								163	-163	0		**0**
Balance as at 01/01/2020	**139**	**6**	**84**	**13**	**129**	**8**	**174**	**3,601**	**-**	**4,154**	**733**	**4,887**
Total comprehensive income			**2**	**-2**		**-3**	**10**		**221**	**228**		**228**
Transfer to reserve for fair value increases					57			-57		0		**0**
Dividend distribution to the bank's shareholders										0		**0**
Compensation to holders of hybrid capital								-18		-18		**-18**
Balance as at 31/12/2020	**139**	**6**	**86**	**11**	**186**	**5**	**184**	**3,526**	**221**	**4,364**	**733**	**5,097**

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

Accounting principles for the company financial statements

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

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

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

Notes to the company financial statements

Amounts in millions of euros

Notes 30 and 33 provide an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses in 2020.

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

For the related party disclosures, please refer to the consolidated financial statements.

1 Cash and balances held with central banks

	31-12-2020	31-12-2019
Cash on hand	0	0
Current account balances with the central bank (due on demand)	2,312	1,272
Total	**2,312**	**1,272**

2 Amounts due from banks

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

	31-12-2020	31-12-2019
Short-term loans and current account balances	5	4
Long-term lending	115	62
Total	**120**	**66**

3 Cash collateral posted

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

4 Financial assets at fair value through the income statement

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

	31-12-2020	31-12-2019
Mandatorily measured at FVTPL		
Loans and advances	89	136
Designated as measured at FVTPL		
Loans and advances	538	555
Interest-bearing securities	825	1,073
Total	**1,452**	**1,764**

The total redemption value of these loans and advances and interest bearing securities at year-end 2020 is EUR 939 million (2019: EUR 1,122 million). Note 25 explains the changes in fair value recognised through the income statement.

5 Derivatives

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

	31-12-2020	31-12-2019
Derivatives not involved in a hedge accounting relationship	196	324
Derivatives involved in a portfolio hedge accounting relationship	3,713	2,822
Derivatives involved in a micro hedge accounting relationship	4,601	6,848
Receivables related to STM derivative contracts	30	10
Total	**8,540**	**10,004**

6 Financial assets at fair value through other comprehensive income

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

	31-12-2020	31-12-2019
Governments	6,312	6,363
Supranational organisations	1,417	492
Credit institutions	2,009	2,287
Other financial corporations	-	26
Non-financial corporations	-	54
Total	**9,738**	**9,222**

Transfers without derecognition

At year-end 2020, BNG Bank had transferred EUR 222 million (2019: nil) of financial assets at fair value through other comprehensive income without derecognition in repurchase transactions.

7 Interest-bearing securities at amortised cost

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

	31-12-2020	31-12-2019
Governments	1,491	1,696
Credit institutions	-	-
Other financial corporations	5,216	5,056
Non-financial corporations	1,179	1,018
Allowance for credit losses	-6	-6
Total	**7,880**	**7,764**

At year-end 2020, BNG Bank had transferred EUR 139 million (2019: nil) of interest-bearing securities at amortised cost without derecognition in repurchase transactions.

8 Loans and advances

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

	31-12-2020	31-12-2019
Short-term loans and current account balances	3,504	5,047
Long-term lending	85,626	83,393
	89,130	**88,440**
Allowance for credit losses	-209	-191
Total	**88,921**	**88,249**

9 Value adjustments on loans in portfolio hedge accounting

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

	2020	2019
Movements of value adjustments on loans in portfolio hedge accounting		
Opening balance	16,462	11,566
Movements in the unrealised portion in the financial year	6,094	6,204
Amortisation in the financial year	-1,581	-1,258
Realisation from sales in the financial year	-159	-50
Closing balance	**20,816**	**16,462**

10 Participating interests

	31-12-2020	31-12-2019	31-12-2020	31-12-2019
	Participating share		Balance sheet value	
Subsidiaries				
BNG Gebiedsontwikkeling BV, The Hague	100%	100%	45	46
Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	6	6
Subtotal			**51**	**52**
Associates				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
Subtotal			**3**	**3**
Total			**54**	**55**

For a description of the bank’s subsidiaries and associates, please refer to section 'Other information' of this document and to section 'Associates and joint ventures', respectively, of the consolidated financial statements. For summarised financial information on associates, refer to section ‘Summarised financial information’.

11 Property and equipment

	2020	2019	2020	2019	2020	2019	2020	2019
	Property		Equipment		Right-of-use-asset		Total	
Historical cost								
Opening balance	49	49	24	22	2	-	75	71
Impact of IFRS 16	-	-	-	-	-	2	-	2
Adjusted opening balance	**49**	**49**	**24**	**22**	**2**	**2**	**75**	**73**
Investments	-	0	2	2	0	0	2	2
Disposals	-	0	-	0	0	0	0	0
Value as at 31 December	**49**	**49**	**26**	**24**	**2**	**2**	**77**	**75**
Depreciation								
Accumulated depreciation as at 1 January	38	37	19	17	0	-	57	54
Depreciation during the year	0	1	3	2	0	0	3	3
Accumulated depreciation as at 31 December	**38**	**38**	**22**	**19**	**0**	**0**	**60**	**57**
Total	**11**	**11**	**4**	**5**	**2**	**2**	**17**	**18**

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

No property or equipment is pledged as security of liabilities.

12 Other assets

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

13 Amounts due to banks

	31-12-2020	31-12-2019
Current account balances	1	0
Central bank funding (TLTRO)	10,950	-
Deposits	715	1,377
Private loans	555	556
Total	**12,221**	**1,933**

14 Cash collateral received

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

15 Financial liabilities at fair value through the income statement

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

	31-12-2020	31-12-2019
Publicly placed debt securities	387	408
Privately placed debt securities	269	266
Total	**656**	**674**

The total redemption value of the debt securities at year-end 2020 is EUR 490 million (2019: EUR 514 million). The difference between the financial liability's carrying amount and the redemption value at year-end 2020 is EUR 166 million (2019: EUR 160 million). Financial liabilities are measured at fair value through the income statement on the relevant funding curve including a mark-up for 'own credit risk'. The total change in value (before tax) was EUR 6 million negative (2019: EUR 10 million positive). Changes in fair value due to own credit risk are recognised through other comprehensive income. These changes are determined by comparing the valuation using the relevant funding curve including a mark-up for 'own credit risk' and the valuation using the relevant funding curve without this mark-up. Note 25 explains the changes in value recognised through the income statement.

16 Derivatives

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

	31-12-2020	31-12-2019
Derivatives not involved in a hedge accounting relationship	1,131	1,004
Derivatives involved in a portfolio hedge accounting relationship	23,525	20,249
Derivatives involved in a micro hedge accounting relationship	2,179	1,393
Payables related to STM derivatives contracts	130	5
Total	**26,965**	**22,651**

17 Taxes

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

	31-12-2020	31-12-2019
Current tax assets	1	29
Current tax liability	0	-
Deferred tax liabilities	-98	-78
Total	**-97**	**-49**

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') in 2018 in accordance with IFRS 9, for the period 2018-2020. A new agreement for the period 2021-2023 is expected to be concluded mid 2021. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets at fair value through the income statement. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached.

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

	2020	2019
Nominal and effective tax rate		
Profit before tax	332	227
Tax levied at the nominal tax rate	-83	-57
Tax adjustment from previous years	0	0
Participation exemption	1	0
Deductible interest on hybrid capital	0	1
Non-deductible costs (bank levy and thin cap)	-29	-7
Effective tax	**-111**	**-63**
Nominal tax rate	25.0%	25.0%
Effective tax rate	33.4%	27.6%

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

2020

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

2019

	Opening balance	Changes through equity	Changes through the income statement	Closing balance
Changes in deferred taxes				
Financial assets at fair value through other comprehensive income	-32	8	-	-24
Cash flow hedge reserve	-62	9	-	-53
Own Credit Adjustment	-2	0	-	-2
Hybrid capital	-4	4	-	0
Employee benefits provision	1	-	0	1
Total	**-99**	**21**	**0**	**-78**

18 Debt securities

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

	31-12-2020	31-12-2019
Bond loans	92,655	94,374
Commercial Paper	7,611	9,333
Privately placed debt securities	8,349	8,954
Total	**108,615**	**112,661**

19 Funds entrusted

	31-12-2020	31-12-2019
Current account balances	2,804	2,433
Short-term deposits	281	25
Long-term deposits	2,518	3,108
Total	**5,603**	**5,566**

20 Subordinated debt

	31-12-2020	31-12-2019
Subordinated debt	35	33
Total	**35**	**33**

21 Other liabilities

	31-12-2020	31-12-2019
Employee benefits provision	2	2
Other liabilities	211	56
Total	**213**	**58**

The employee benefits provision is made up of two parts, a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 1 million (2019: EUR 1 million) and a provision for vitality leave of EUR 1 million (2019: EUR 1 million). Both provisions have a long-term character.

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

	2020	2019
Employee benefits provision		
Net liability as at 1 January	2	2
Movements in the provision	0	0
Net liability as at 31 december	**2**	**2**

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

22 Equity

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

	31-12-2020	31-12-2019
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	86	84
Cash flow hedge reserve	11	13
Own credit adjustment	5	8
Cost of hedging	184	174
Reserve for fair value increases	186	129
Retained Earnings	3,526	3,438
Unappropriated profit	221	163
Equity attributable to shareholders	**4,364**	**4,154**
Hybrid capital	733	733
Total	**5,097**	**4,887**

	2020	2019
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.81	1.27
Proposed dividend		
- Primary dividend pursuant to the Articles of Association	7	7
- Proposed dividend above the primary dividend	94	64
Total	**101**	**71**

The proposed dividend distribution for 2020 takes into account the compensation of EUR 25 million (before tax) that has already been paid on the hybrid capital in 2020. This payment was charged to the Retained earnings.

For the financial year 2019 a dividend of EUR 71 million was proposed to the General Meeting of Shareholders held in the first half of 2020. In advance of the meeting the ECB has recommended European Banks to refrain from, or postpone dividend payments to at least 31 October 2020. In the General Meeting we have announced that we will follow ECB recommendations. In the summer of 2020 the ECB changed its recommendation to refraining from any dividend distribution until at least 31 December 2020. More recently, the ECB agreed on a payment in March 2021 for the amount equivalent to a decrease of the CET 1 ratio with 0,2%, which for BNG Bank amounts to EUR 24 million. Additional distributions of dividend will, following the ECB recommendation, not take place before October 2021. We have the intention to make additional distributions of dividend, however we will need to take into account any future ECB recommendations.

Share capital

The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. BNG Bank and its subsidiaries hold no company shares.

None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

Share premium reserve
There were no movements in 2020 and 2019.

Revaluation reserve
At year-end 2020 the revaluation reserve includes EUR 749 million (2019: 161 million) in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets at fair value through other comprehensive income. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement.

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

Own credit adjustment
The Own Credit Adjustment amounts to EUR 5 million net of taxes (2019: EUR 8 million). This adjustment relates to changes in credit risk of financial liabilities measured at fair value through the income statement.

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

Retained earnings
After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the Retained earnings. In 2020, the payment of a dividend of EUR 71 million (2019: EUR 159 million) was scheduled. Due to the COVID-19 outbreak, the pay out is postponed to 2021, strongly adviced by ECB. EUR 25 million (before tax) was distributed to the holders of the hybrid capital in 2020 (2019: EUR 25 million), charged to the Retained earnings. The Retained earnings include a share premium related to hybrid capital of EUR 0.1 million in total (2019: EUR 0.1 million).

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

Hybrid capital
The bank's hybrid capital amounts to EUR 733 million. The instruments are structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to temporary write-down in the event that the CET1 ratio falls below 5.125%. In case of write-down, this amount will be transferred to the Retained earnings. Write-down from the Retained earnings can be reversed (write-up) under certain conditions at the moment that the trigger ratio is back above 5.125% again.

BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a compensation charged to the Other reserves. The compensation is determined on the basis of the prevailing principal amount. Initially the distributed compensation was not deductible for corporate income tax as from 2019 due to a change in law in 2018. On 15 May 2020, the Dutch Supreme Court, ruled that AT1-capital should be considered debt for Dutch corporate income tax purposes, therefore payments remained deductible as from 2019. BNG Bank has the unilateral contractual option to call the hybrid capital issued. The tranches issued in 2015 (a nominal amount of EUR 424 million) can be repurchased at par from May 2021 and subsequently in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased every year from May 2022.

23 Interest result

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

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

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

		2020		**2019**
Interest revenue				
Interest revenue calculated by using the effective interest method:				
- Financial assets at amortised cost	2,053		2,147	
- Financial assets at fair value through other comprehensive income	113		143	
- Derivatives involved in hedge accounting	2,276		2,561	
- Negative interest expenses on financial liabilities	71		36	
		4,513		4,887
Other interest revenue:				
- Financial assets designated at fair value through the income statement	34		42	
- Financial assets mandatory at fair value through the income statement	3		3	
- Derivatives not involved in hedge accounting	325		588	
- Other	-		-	
		362		633
Total interest revenue		**4,875**		**5,520**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
- Financial liabilities at amortised cost	1,893		2,414	
- Derivatives involved in hedge accounting	2,291		2,429	
- Negative interest expenses on financial assets	129		149	
		4,313		4,992
Other interest expenses				
- Financial liabilities designated at fair value through the income statement	30		31	
- Derivatives not involved in hedge accounting	48		58	
- Other	7		5	
		85		94
Total interest expenses		**4,398**		**5,086**
Total interest result		**477**		**434**

The interest revenue in 2020 includes EUR 2 million (2019: EUR 2 million) in interest revenue for financial assets, relating to Financial assets at amortised cost (notes 7 and 8) and Financial assets at fair value through other comprehensive income (note 6), which were subject to impairment.

24 Commission result

Commission income

This item includes income from services provided to third parties.

	2020	2019
Income from loans and credit facilities	19	23
Income from payment services	10	9
Total	**29**	**32**

Commission expenses

This item comprises expenses totalling EUR 4 million (2019: EUR 2 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

25 Result on financial transactions

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

		2020		2019
Market value changes in financial assets at fair value through the income statement resulting from changes in credit and liquidity spreads, consisting of:				
- Interest-bearing securities	-24		29	
- Structured loans	-4		0	
		-28		29
Result on hedge accounting				
- Portfolio fair value hedge accounting	-18		-28	
- Micro fair value hedge accounting	11		38	
- Micro cash flow hedge accounting	-3		-2	
		-10		8
Change in counterparty credit risk of derivatives (CVA/DVA)		-3		-10
Realised sales and buy-out results		39		21
Other market value changes		-15		-11
Total		**-17**		**37**

Also in 2020, the result on financial transactions was positively affected by realised results. The realised results of EUR 39 million (2019: 21 million) are mainly due to on balance positive results on the sales from the liquidity portfolio of the bank. The realised results also includes the successful completion in February of a 'true sale and buyback' of a major inflation-linked bond purchased in 2007 and the restructuring of related derivatives. The purpose of these transactions was to reduce income statement volatility and ensures that, from February 2020, this bond is valued at the amortised cost and together with the related derivatives has been brought into hedge accounting. The completion of these transactions led to a realised result of EUR 3 million positive.

The unrealised results amounted to EUR 56 million negative (2019: 16 million positive). The increased credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a negative result of EUR 24 million (2019: 29 million positive) mainly due to the COVID-19 pandemic. The unrealised results were also negatively affected by the result on hedge accounting, changes in counterparty credit risk of derivatives with clients and other market value changes. The other market value changes also include the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

26 Results from participating interests

	2020	2019
Associates	1	1
Subsidiaries	0	-3
Total	**1**	**-2**

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

27 Staff costs

	2020	2019
Wages and salaries	28	27
Pension costs	5	4
Social security costs	3	3
Additions to the employee benefits provision	0	-
Other staff costs	11	5
Total	**47**	**39**

There was no variable remuneration of individual staff members in 2020. In 2019, it was maximized at 20% of their fixed salary.

The increase in staff costs are mainly due to other costs from secondary conditions, training and the addition to the personnel provision.

28 Other administrative expenses

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, consultancy costs, training expenses and IT expenses. The total other administrative expenses for 2020 amounted to EUR 46 million (2019: EUR 37 million).

29 Depreciation

A breakdown of this item is included in the note on Property and equipment (note 11). In total, the depreciation charges amounted to EUR 3 million in 2020 (2019: EUR 3 million).

30 Impairments

The impairments in 2020 amounted to a loss of EUR 16 million in the income statement (2019: EUR 153 million loss).

2020

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

2019

	Stage 1	Stage 2	Stage 3	Total
Impairment results due to movements in allowances:				
- Increases in allowances due to origination and acquisition	3	3	0	6
- Decreases in allowances due to derecognition	-2	-4	0	-6
- Changes in allowances due to changes in credit risk (net)	1	4	148	153
	2	**3**	**148**	**153**
Impairment results not due to movements in allowances:				
- Reversal of impairment due to cash flows received from past write-offs				0
- Impairments due to write-offs			0	0
	-	**-**	**0**	**0**
Net impairment result on financial assets	**2**	**3**	**148**	**153**

Movement in allowances for expected credit losses

2020

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

2020
2019

	Stage 1	Stage 2	Stage 3	Total
Movements in allowances taken through the income statement:				
- Increases in allowances due to origination and acquisition	3	3	0	6
- Decreases in allowances due to derecognition	-2	-4	0	-6
- Changes in allowances due to changes in credit risk (net)	1	4	148	153
	2	**3**	**148**	**153**
Movements in allowances not taken through the income statement:				
- Decreases in allowance due to write-offs			-5	-5
	0	**0**	**-5**	**-5**
Total movements in allowances	**2**	**3**	**143**	**148**

Note 33 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses in 2020.

The changes in the incurred loss provision are included in the Loans and advances item (Note 8).

31 Contribution to resolution fund and bank levy

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 8 million payable for 2020 (2019: EUR 8 million) was paid in June 2020 and charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay the bank levy in October of every year, which for 2020 amounted to EUR 34 million (2019: EUR 30 million).

	2020	2019
The bank levy is calculated as follows:	basis 2019	basis 2018
Balance sheet total	149,689	137,509
Less: Tier 1 capital	4,692	4,614
Less: Deposits covered by the deposit-guarantee scheme	49	51
Taxable base	**144,948**	**132,844**
Less: Efficiency exemption	20,900	20,900
Taxable base	**124,048**	**111,944**
Total sum of debts with a maturity of less than one year	34,087	28,792
Total sum of all debts, according to the balance sheet	144,802	132,518
Bank levy on short-term debt	13	11
Bank levy on long-term debt	21	19
Total calculated/due	**34**	**30**

32 Fees of independent auditors

The following audit fees were reported in the income statement:

	2020	2019
Audit of the financial statements	362	329
Other audit services	433	459
Tax services	-	-
Other non-audit services	10	10
Total	**805**	**798**

The fees listed above relate to the procedures applied to the Company and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ('Wet toezicht accountantsorganisaties – Wta'). In the case of BNG Bank this is only applicable to Dutch based accounting firms (PwC the Netherlands accountants ('PwC NL'), including its tax services and advisory groups) as BNG Bank does not make use of foreign based accounting firms. The audit fees relate to the audit of the 2020 financial statements, regardless of whether the work was performed during the financial year.

Summary of services rendered by the independent auditor, in addition to the audit of the financial statements

Our independent auditor, PwC NL, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

Other audit services required by law or regulatory requirements

- Statutory audits of controlled entities;
- Review of interim financial statements;
- Audit of the regulatory returns for the Dutch Central Bank;
- Assurance engagement credit claims for the Dutch Central Bank.

Other audit services

- Assurance engagement on the sustainability report;
- Comfort letters on annual update of debt issuance prospectus and drawdowns under the debt issuance programme;
- Assurance engagement on the TLTRO-report;
- Assurance engagement on the Deposito Garantee Scheme requirements.

Other non-audit services

- Agreed-upon procedure on the financial information for the Single Resolution Board.

33 Impairment of financial assets and off-balance sheet commitments

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

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

Stage 1: performing exposures without significant increase in credit risk (SICR) since initial recognition.
Stage 2: performing exposures with significant increase in credit risk since initial recognition.
Stage 3: non-performing exposures.

31-12-2020

		Gross carrying amount			Allowance for credit loss		
	Carrying amount	Performing		Non-performing	Performing		Non-performing
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Cash and balances held with central banks	2,312	2,312	-	-	-	-	-
Amounts due from banks	120	120	0	-	0	0	-
Cash collateral posted	20,361	20,361	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,738	9,677	61	-	0	-1	-
Interest-bearing securities at amortised cost	7,880	7,714	172	-	-1	-5	-
Loans and advances	88,921	87,118	1,617	394	-9	-25	-173
Total	**129,332**	**127,302**	**1,850**	**394**	**-10**	**-31**	**-173**

31-12-2019

		Gross carrying amount			Allowance for credit loss		
	Carrying amount	Performing		Non-performing	Performing		Non-performing
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Cash and balances held with central banks	1,272	1,272	-	-	-	-	-
Amounts due from banks	66	66	-	-	0	0	-
Cash collateral posted	14,643	14,643	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,222	9,166	56	-	0	-1	-
Interest-bearing securities at amortised cost	7,764	7,665	105	-	-1	-5	-
Loans and advances	88,249	86,712	1,440	288	-5	-31	-155
Total	**121,216**	**119,524**	**1,601**	**288**	**-6**	**-37**	**-155**

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

31-12-2020

	Nominal amount			Provision		
	Performing		Non-performing	Performing		Non-performing
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Off-balance sheet commitments						
Contingent liabilities	1,516	1	-	0	0	-
Revocable facilities	6,176	67	1	0	0	-
Irrevocable facilities	5,630	64	-	-2	-2	-
Total	**13,322**	**132**	**1**	**-2**	**-2**	**-**

31-12-2019

	Nominal amount			Provision		
	Performing		Non-performing	Performing		Non-performing
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Off-balance sheet commitments						
Contingent liabilities	1,612	1	-	0	0	-
Revocable facilities	3,637	126	8	0	0	0
Irrevocable facilities	7,014	113	24	-1	-1	-3
Total	**12,263**	**240**	**32**	**-1**	**-1**	**-3**

Movements in allowances and provisions for expected credit losses

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

2020

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-offs	Closing balance
Allowances						
Cash and balances held with central banks	-	-	-	-	-	-
Amounts due from banks	0	0	0	0	-	0
Financial assets at fair value through OCI	1	0	0	0	-	1
Interest-bearing securities at amortised cost	6	0	0	-1	-	5
Loans and advances	191	8	-6	15	-	208
	198	**8**	**-6**	**14**	**-**	**214**
Provision						
Off-balance sheet commitments	5	2	-5	2	-	4

2019

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-offs	Closing balance
Allowances						
Cash and balances held with central banks	-	-	-	-	-	-
Amounts due from banks	0	0	0	0	-	0
Financial assets at fair value through OCI	1	0	0	0	-	1
Interest-bearing securities at amortised cost	7	0	-2	1	-	6
Loans and advances	46	5	-3	148	-5	191
	54	**5**	**-5**	**149**	**-5**	**198**
Provision						
Off-balance sheet commitments	2	1	-1	3	-	5

Other notes

For the details on other items, please refer to the notes to the consolidated financial statements.

The Hague, 12 March 2021

Executive Board
Ms G.J. Salden, **Chair**
Ms C.A.M. van Atteveldt - Machielsen
O.J. Labe

Supervisory Board
Ms M. Sint, **Chair**
J.C.M. van Rutte, **Vice-chair**
H. Arendse
C.J. Beuving
J.B.S. Conijn
Ms M.E.R. van Elst
Ms J. Kriens

8.3 Other information

Independent auditor's report

To: the general meeting and supervisory board of BNG Bank N.V.

Report on the financial statements 2020

Our opinion
In our opinion, the financial statements of BNG Bank N.V. ('the Company') give a true and fair view of the financial position of the Company and the Group (the Company together with its subsidiaries) as at 31 December 2020, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited
We have audited the accompanying financial statements 2020 of BNG Bank N.V., The Hague. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The financial statements comprise:
- the consolidated and company balance sheet as at 31 December 2020;
- the following statements for 2020: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of BNG Bank N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context
BNG Bank N.V. is a credit institution licensed in the Netherlands. Its main activity is providing financing to the Dutch public sector and the semi-public domain. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'Accounting estimates and judgements' of the financial statements, the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the impairment of loans and receivables and the valuation of financial instruments, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report. In addition, given the technical and complex requirements for the application of portfolio hedge accounting and potential material impact on the result and equity of incorrect application of these requirements could have a material impact, we have also considered this to be a key audit matter in our audit.

Given the importance of IT for the Company, we have, to the extent relevant to our audit, paid specific attention to the IT general controls, which comprise the policies and procedures to ensure reliable automated processing of information used for financial reporting purposes, including management of cybersecurity risks. The Company has outsourced a larger part of its IT activities to Centric FSS. The outsourcing has implications for our audit as set out in the section 'The scope of our group audit' of this report. We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a banking institution. We therefore included specialists in the areas of IT, tax and valuation of financial instruments in our team.

The outline of our audit approach was as follows:

Materiality
- Overall materiality: EUR 16.6 million (2019: EUR 11.4 million).

Audit scope
- We conducted audit work on the Company and its subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel.
- In our assessment of the IT landscape, we made use of the ISAE 3402 type 2 report of Centric FSS.

Key audit matters
- Impairment of loans and receivables.
- Application of hedge accounting.
- Valuation of financial instruments.

Materiality
The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality
EUR 16.6 million (2019: EUR 11.4 million).

Basis for determing materiality
We used our professional judgement to determine overall materiality. As a basis for our judgement we used 5% of profit before tax.

Rationale for benchmark applied
We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the Group.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.
We agreed with the supervisory board that we would report to them misstatements identified during our audit above EUR 0.8 million (2019: EUR 0.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit
BNG Bank N.V. is the parent company of a group with BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. as its 100% subsidiaries. The financial information of these subsidiaries is included in the consolidated financial statements of BNG Bank N.V. All consolidated positions and transactions in the financial statements were in scope of our audit.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the Group operates.

The Company has outsourced the largest part of its IT activities and payment services to Centric FSS. In our assessment of the IT landscape, we made use of the ISAE 3402 Type 2 report of Centric FSS. In this context, we have been involved in planning the ISAE 3402 work by the service-provider auditor of Centric FSS, discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 assurance report once it was finalised. Based on these procedures performed, we conclude that in the context of our audit of the financial statements of BNG Bank N.V., we could rely on the ISAE 3402 Type 2 assurance report of Centric FSS.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the group financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations Fraud

The objectives of our audit, in respect to fraud are:
- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

As in all of our audits, in assessing the risks of material misstatement in the financial statements, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud.We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by the Company, and finally we incorporated elements of unpredictability in our audit. We refer to our key audit matters on our approach related to key areas with higher risk due to accounting estimates where management makes significant judgements.

The primary responsibility for the prevention and detection of fraud lies with the executive board with the oversight of the supervisory board.

Laws and regulations

There is an industry risk that emerging compliance or litigation areas have either not been identified or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

The objectives of our audit, in respect to non-compliance with laws and regulations are:
- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

In line with Standard 250 in our audit approach we made a distinction between those laws and regulations which:
- have a direct effect on the determination of material amounts and disclosures in the financial statements. For this category we have obtained audit evidence regarding compliance with the provision of those laws and regulations; and
- does not have a direct effect on the determination of material amounts and disclosures in the financial statement, but where compliance may be fundamental to the operating aspects of the business, to the Company's ability to continue its business or to avoid material penalties. For this category, we performed specific audit procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified that the risk of non-compliance with laws and regulates relates mainly to the laws and regulations which have an indirect impact on the financial statements, such as the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) (including regulations on Anti-Money Laundering (AML) Client Due Diligence (CDD)), Markets in Financial Instruments Directive II (MiFID II), transaction reporting and General Data Protection Regulation (GDPR).

The primary responsibility for the prevention and detection non-compliance with laws and regulations lies with the executive board with the oversight of the supervisory board.

Impact of Covid-19 on our 2020 audit approach

Following the Covid-19 outbreak, auditors are facing challenges in performing their audits. In response to that, we have considered the impact of the pandemic on our audit approach and in the execution of our audit. Inquiries and meetings with management were done via video conferencing. We obtained viewer rights to those applications most relevant to our audit to enable us to ensure records used as audit evidence were complete, accurate and authentic. The following highlights elements in our audit impacted by the effects of the COVID -19 pandemic:

- the impact on the Company's control environment relevant to our audit, due to remote working. Most of the Company's day to day accounting and operational processes relevant to our audit, were already performed electronically and had the ability to be performed remotely, therefore, the transition to a remote working environment did not cause significant change or disruption on the Company's control environment. The impact of COVID-19 is observable in the number of findings from internal audit, number of operational incidents and delays in projects. We assessed that the impact of the Covid-19 pandemic, including working in a remote environment, on the effective operation of controls relevant to our audit was limited;
- the impact on the Bank's capital and liquidity position. We have evaluated the Bank's assessment supporting the Bank's ability to continue as a going concern;
- the impact on the Company's fraud risks exposure and operational incidents. Our procedures are explained in the section 'Our focus on the risk of fraud and non-compliance with laws and regulations; and
- the Company's valuation of assets certain assets classes such as loans and receivables, financial assets and financials liabilities. were impacted by the economic implications of the COVID-19 pandemic. Uncertainty of the current environment and the continual changing nature of the unprecedented impact of the Covid-19 pandemic, has added further complexity and challenges when auditing accounting estimates, in particular with respect to estimating expected credit losses on loans and receivables. Our procedures include assessment of these accounting matters and the relevant disclosures in the financial statements in accordance with the financial reporting framework applied by the Company. We refer to the section on key audit matters for procedures performed on impairment allowances on loans and receivables.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context. Compared to prior year, we did not include any new key audit matters as we did not come across any new significant transactions or developments that were considered a key audit matter.

Key audit matter	Our audit work and observations
Impairment of loans and receivables *Refer to the accounting principle 'Impairment of financial assets', note 31 'Net impairment losses on financial assets' and note 37 'Impairment of financial assets and off-balance sheet commitments' in the consolidated financial statements.* The lending to clients classified as loans and advances measured at amortised cost amounts to EUR 89 billion as at 31 December 2020. Most of the loan portfolio relates to loans that are guaranteed by a (central) government body or by the WSW or Wfz guarantee funds. The credit risk inherent in this category is limited as explained in the risk section in the financial statements. Therefore, the expected credit loss on these loans is considered low. However, the Company also has an unguaranteed loan portfolio amounting to EUR 9 billion that has a higher risk of impairments. The impairment provision for loans and advances as per 31 December 2020 is EUR 210 million and the net impairment charge for loans and advances recognised in 2020 in the income statement amounts to EUR 16 million. ***Areas of estimation uncertainty and management judgment:*** In determining the expected credit losses for loans and advances, management has to apply judgment in a number of areas. Amongst others this applies to the choices and judgement made in the impairment methodology such as determining what is considered a significant increase in credit risk (SICR), what forward looking macro-economic information is relevant to measure expected credit losses for loans and receivables and managements estimates of probabilities of default and loss given default. In 2020 this included high degree of estimation uncertainty due to the economic impact of Covid-19 in developing macro-economics scenarios and the associated weightings given to the range of potential economic outcomes. ***Models and assumptions:*** To calculate expected credit losses for stage 1 and 2, the executive board estimated the probability of default (PD) and the loss given default (LGD) and the exposure at default (EAD). The Company's loan portfolio has a low default character and as a result, there is limited internal historical data to support and back-test the applied PDs and LGDs. Management used its internally developed credit rating models to estimate the PD for exposures for which no external rating is available. Given the low default character of the Company's loan portfolio, the rating models were considered expert models and required a high degree of judgement to	**Evaluating accounting policy choices:** We evaluated how management applied IFRS 9 to determine whether it has been set up in accordance with the requirements included in the standard. We challenged management on their judgement in key accounting policy choices in the areas of what is considered to be a SICR, application of the low credit risk exemption and default definitions. We considered the policy choices in the application of IFRS 9 to be reasonable. **Assessing individual exposures:** For a sample of loans including loans for which management concluded that no SICR occurred, and loans where an SICR is observed we assessed management's assessment of the level of credit risk, for example by determining that there are no significant arrears in payments, take notice of the latest internal annual creditworthiness assessment and evaluation of latest financial information of counterparties. Based on our initial findings, we extended our sample with loans on the higher end of stage 1 ratings and stage 2 ratings, where deviations in the credit risk assessment have more significant impact on the recorded impairments of loans, paying specific attention to the latest internal annual creditworthiness assessment and analysis of public available adverse news, if any. Our procedures did not return any different outcomes with respect to the staging compared to management. For credit-impaired loans, we evaluated the feasibility of the forecasted cash flows for each scenario and assessed management's analysis of the probability allocation of each individual scenario for each credit-impaired loan. In evaluating the forecasted cash flows we evaluated the values that management attributed to expected cash flows and available collateral to assess that this represents a best estimate. **Evaluating internal credit rating models:** With respect to the internal credit rating models used we evaluated the model governance procedures, credit modelling monitoring performed by risk management, reasonableness of the methodology and overlays for macro-economic scenarios applied in determining the credit ratings. Management engaged with external experts to validate their internal credit rating models. As part of our audit procedures, amongst others, we evaluated the competence, capability and objectivity of these external experts. Furthermore, we obtained the reports issued by these external experts that summarise the procedures performed, the evidence obtained, and conclusions reached. We discussed and evaluated these reports with the Company's internal model owners

Continuation of previous page

Key audit matter	Our audit work and observations
stratify clients in rating classes. Also, with respect to the LGD used in the calculation of expected credit losses, the executive board has applied significant judgement. The Company applies a basic flat LGD percentage based on the limited available historic default information. For credit-impaired loans, the impairment allowance is based on the weighted average of the net present value of expected future cash flows (including forward looking information and the valuation of underlying collateral) in three different scenarios. Given the complexity and judgement required to calculate the impairments of loans and advances and the impact it might have on results, this area is subject to a higher risk of material misstatement. Therefore, we have identified the impairment of loans and advances as a key audit matter in our audit.	and external experts. We also assessed the external expert's conclusions to conclude that the internal credit rating models are fit for purpose and that their recommendations have no material impact on the expected credit loss calculation. We did not identify any indicators of possible management bias in determining internal credit ratings and corresponding PD's. With respect to the forward looking macro-economic information, we challenged on how the inputs for the various models were determined and to the extent possible compared this to external market data. In the current Covid-19 environment applying macro-economic information was a challenge, for which the Company developed updated models. These model changes were validated by a third-party expert and subsequently assessed by us. Secondly, the Company reassessed and changed the weightings given to different macro-economic scenarios to make it more conservative in the current uncertain environment. We evaluated the changes and considerations made by management. Furthermore, we reviewed the notes to the financial statements on sufficiently clear disclosures on the applied changes. With respect to the LGD used in the calculation of expected credit losses, we challenged management's evaluation of the limited available historic information and the assumptions applied therein.
Application of hedge accounting *Refer to the accounting policy 'Hedge accounting' and the disclosure note 'hedging of risks with derivatives' in the consolidated financial statements* The Company enters into derivatives to hedge its interest rate risk and variability in cash flows. By applying hedge accounting, the results of the hedged item and the hedging instrument are recognised simultaneously in the income statement to neutralise the impact on the result, to the extent the hedging relationship is effective. The Company applies micro fair value hedge accounting to hedge interest rate risks and micro cash flow hedge accounting to hedge the risk resulting from variability in cash flows as a result of cross-currency fluctuations. For interest rate risk, the Company applies micro fair value hedging as well as portfolio fair value hedge accounting. We consider portfolio hedge accounting to be more complex in nature as compared to micro hedge accounting and have, therefore, determined portfolio hedge accounting to be a key focus area in our 2020 audit.	***Internal controls:*** Our audit work included, amongst others, understanding, evaluating and testing the design and operating effectiveness of controls relating to the documentation and review of the portfolio hedge relationship, including testing the hedge ineffectiveness by management. Based on this work, we concluded that, to the extent relevant to our audit, we could rely on these controls for the purpose of our audit. ***Evaluation models and valuation methodology:*** We tested the models used by BNG Bank N.V. for calculating hedge effectiveness for portfolio hedging. Furthermore, as part of our audit procedures we also tested management's effectiveness calculations and no exceptions were noted. ***Evaluating compliance with EU-IFRS:*** With respect to the documentation supporting the portfolio hedge accounting relationship, we verified that hedge documentation complied with the requirements of EU-IFRS. We found no exceptions in our test.

Continuation of previous page

Key audit matter	Our audit work and observations
Use of models: The Company has developed specific models for calculating hedge effectiveness for portfolio hedge accounting. The determination of the effectiveness is technically complex. As per management's assessment, portfolio hedge accounting for BNG Bank N.V. has been highly effective in recent years. ***Requirements to apply hedge accounting:*** To apply portfolio fair value hedge accounting, the Company must meet the EU-IFRS requirements for portfolio hedge accounting as included in IAS 39. These include amongst others: • documentation of hedging relationships in formal hedge documentation; and • validating that the hedge accounting relationship meets all of the hedge effectiveness requirements of IAS 39. Given the technical and complex requirements for the application of portfolio hedge accounting and that incorrect application of these requirements could have a material impact on the result and equity, we have considered this to be a key audit matter in our audit.	
Valuation of financial instruments *Refer to the accounting policy 'fair value of financial instruments' and the disclosure note 'fair value of financial instruments' in the consolidated financial statements* The Company has financial instruments on its balance sheet that are measured at fair value through the income statement. The portfolio consists of €1,150 million of financial assets classified as level 2 and €195 million as level 3. Financial liabilities measured at fair value through the income statement classified as level 2, are in total €539 million as per 31 December 2020. The derivative portfolio with a fair value of €8,540 million recorded as assets and €26,965 million recorded as liabilities contains for >99% level 2 and <1% level 3 instruments. ***Level 2 financial instruments:***For financial instruments classified as level 2, management estimates the fair value by using discounted cash flow models, option pricing models, modelling of double default effects and other valuation techniques. Judgement is required in determining the valuation model and policy. For level 2 instruments, management uses observable inputs to determine forward curves, discounting curves, volatility cubes, inflation curve and spread curves. For derivatives for which the Company has no strong credit support	***Testing observable inputs:*** For both level 2 and level 3 financial instruments we, compared the observable inputs such as forward curves, discounting curves and volatility cubes to independent sources and external market available data and we assessed whether these inputs are in line with market and industry practise. For the own funding curve used to determine the own credit adjustment for financial liabilities measured at fair value, we evaluated the reasonableness of the curve construction by comparing the input to market information available over the full term of the curve. Our procedures demonstrated that management's inputs fall within our range of reasonable outcomes. ***Challenging unobservable inputs:*** For level 3 instruments, we challenged management on assumptions and methodology applied, the impact of COVID-19 on assumptions and inputs, and validated the internal process performed to determine these inputs. As part of this, we also evaluated to what extent we identified any indicators of possible management bias in estimating fair value. For the financial assets classified as level 3, we challenged how the unobservable inputs (such as monoline guarantees, and credit and liquidity spreads) were estimated and were determined based upon the internal policies. Based upon our procedures, we consider the unobservable inputs and judgements made in determining the fair value of level 3 instruments

Continuation of previous page

Key audit matter	Our audit work and observations
annex in place, a Credit Valuation Adjustment (CVA) is estimated in the calculation of the fair value. Given the complexity in certain valuation models and inputs, the size and diversity of the portfolio, and the impact that the portfolio has on the results, this area is subject to higher risk of material misstatement due to error. Therefore, we consider the fair value measurement of level 2 financial instruments a key audit matter. ***Level 3 financial instruments:*** For level 3 financial instruments, management needs to estimate unobservable inputs that are significant to the measurement in the valuation models to determine fair value. The main unobservable inputs relate to recovery rates and correlation factors for bonds with a monoline guarantee and credit and liquidity spreads. Given the level of management estimation involved in determining these unobservable inputs, the long duration of some of those instruments and therefore the impact that these assumptions have on result, this area is subject to higher risk of material misstatement due to error. Therefore, we consider this a key audit matter.	to be reasonable and in-line with market practices. ***Independent revaluation:*** For level 2 instruments, we performed an independent valuation of a sample of positions, taking into consideration different categories of financial instruments divided in, amongst others, maturity, currency classes, curves and various valuation models applied. We performed these procedures to determine if management's valuation outcomes fell within a reasonable range of possible outcomes and to validate the design and operating effectiveness of the evaluated models and curves.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- foreword;
- selected financial data;
- driven by social impact;
- internal business operations;
- results and outlook;
- governance;
- corporate governance statement;
- report of the supervisory board;
- supplementary information;
- appendix; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements; and
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment
We were appointed on 23 April 2015 as auditor of BNG Bank N.V. by the general meeting, following a recommendation by the supervisory board on 28 November 2014.

Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 5 years.

No prohibited non-audit services
To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered
The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 32 to the company financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the executive board and the supervisory board for the financial statements
The executive board is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going concern basis of accounting unless the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but

not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 12 March 2021
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: J.M. de Jonge RA

Appendix to our auditor’s report on the financial statements 2020 of BNG Bank N.V.

In addition to what is included in our auditor’s report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board’s use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor’s report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related actions taken to eliminate threats or safeguards applied.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Assurance report of the independent auditor

To: the general meeting and supervisory board of BNG Bank N.V.

Assurance report on the sustainability information 2020

Our opinion
In our opinion the sustainability information in the accompanying annual report 2020 of BNG Bank N.V. presents, in all material respects, a reliable and adequate view of:
- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year ended 31 December 2020 in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as included in the section 'reporting criteria'.

What we have audited
We have audited the sustainability information included in the annual report for the year ended 31 December 2020, as included in the following sections in the annual report ('the sustainability information'):
- Paragraph 1.1 'Our Road to Impact'
- Paragraph 1.2 'Continuity of services in an extraordinary year'
- Paragraph 1.3 'Increase in loans to client sectors'
- Paragraph 1.4 'Strong position in money and capital markets'
- Paragraph 2.1 'Employees'
- Paragraph 2.2 'CO_2 emissions of business operations'
- Paragraph 7.1 'Materiality and value creation'
- Paragraph 7.2 'Reporting principles'

The sustainability information comprises a representation of the policy and business operations of BNG Bank N.V., The Hague (hereafter: "BNG Bank N.V.") with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended 31 December 2020.

The basis for our opinion
We have performed our audit in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assuranceopdrachten inzake maatschappelijke verslagen' ('Assurance engagements on corporate social responsibility reports'). Our responsibilities under this standard are further described in the section 'Our responsibilities for the audit of the sustainability information' of this assurance report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and quality control
We are independent of BNG Bank N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Dutch Code of Ethics).

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

Reporting criteria

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The executive board of BNG Bank N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria, as disclosed in section 7.2 'Reporting principles' of the annual report. The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Limitations to the scope of our audit

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the sustainability information.

The links to external sources or websites in the sustainability information are not part of the sustainability information reviewed by us. We do not provide assurance over information outside of this the annual report.

Responsibilities for the sustainability information and the audit

Responsibilities of the executive board and the supervisory board

The executive board of BNG Bank N.V. is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are summarised in sections 7.1 'Materiality and value creation' and 7.2 'Reporting principles' of the annual report.

The executive board is also responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the company's reporting process on the sustainability information.

Our responsibilities for the audit of the sustainability information

Our responsibility is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Our opinion aims to provide reasonable assurance that the sustainability information contains no material misstatements. Reasonable assurance is a high, but not absolute level of assurance, which makes it possible that we may not detect all misstatements.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the executive board.
- Obtaining an understanding of the systems and processes for collecting, reporting, and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Identifying and assessing the risks if the sustainability information is misleading or unbalanced, or contains material misstatement, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the sustainability information is misleading or unbalanced or the risk of not detecting a material misstatement, resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further procedures consisted amongst others of:
  - Interviewing management (and/or relevant staff) at corporate (and business/division/cluster/local) level responsible for the sustainability strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
  - Obtaining audit evidence that the sustainability information reconciles with underlying records of the company;
  - Evaluating relevant internal and external documentation, on a sample basis, to determine the reliability of the information in the sustainability information;
- Reconciling the relevant financial information with the financial statements.
- With regard to the impact measurement of the loan portfolio based on the PCAF methodology we have performed audit procedures on the application of the methodology, not on the actual emissions itself. Audit procedures performed include:
  - Assessed the reasonableness of the scope of the measurement and the suitability of the methodology chosen;
  - Interviewed the management expert of BNG Bank N.V. for a key understanding of the impact measurement;
  - Reviewed the final report of the measurement containing a description of the calculation models, assumptions used and the outcome(s) of the impact measurement;
  - Obtaining a key understanding of the calculation model; o Tested the relevant assumptions on suitability, reasonableness, completeness and relevance;
  - Reconciling the loan portfolio balance per 31 December 2019 to the underlying financial administration;
  - Performed recalculation and reperformance of the calculations made and inspected underlying documents;
  - Obtaining underlying support for most significant assumptions/estimates.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our audit.
- Evaluating the presentation, structure and content of the sustainability information;
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 12 March 2021
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: J.M. de Jonge RA

Stipulations of the articles of association concerning profit appropriation

Article 20

20.1 Profits shall be distributed after adoption by the general meeting of shareholders of the annual accounts showing that this is permissible.

20.2 The company may make payments to the shareholders from the profits available for distribution only in so far as its equity capital exceeds the amounts of the paid-up part of the capital plus the reserves which have to be kept by law.

20.3 First of all, if possible, the profits available for distribution shall be used to add an amount of ten per cent (10%) of the profit of the financial year as evidenced by the annual accounts to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five per cent (5%) of the nominal amount of their shareholding.

20.4 The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholdings, in so far as the general meeting of shareholders does not allocate this to reserves.

20.5 The company shall be empowered to make interim distributions, subject to the provisions of Article 105, paragraph 4, of Book 2 of the Civil Code, in the following manner:

a. the general meeting of shareholders requests the Executive Board in writing to submit a proposal for an interim distribution;
b. if the Executive Board has not, within six months after receipt of such a request, submitted a proposal approved by the Supervisory Board to the general meeting of shareholders, the general meeting of shareholders shall be free to resolve to make an interim distribution;
c. if the general meeting of shareholders has rejected the proposal of the Executive Board approved by the Supervisory Board, the general meeting of shareholders shall again request the Executive Board in writing to submit a proposal within eight weeks after receipt of such a request. This proposal by the Executive Board again requires the approval of the Supervisory Board;
d. if the general meeting of shareholders again rejects the proposal as referred to at c of this article 20 paragraph 5, the general meeting of shareholders shall be free to resolve to make an interim distribution.

Objectives as defined in the Articles of Association

Object
Article 2

2.1 The object of the company shall be to conduct the business of banker on behalf of public authorities.

2.2 In the context of its object as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending moneys, granting credits in other ways, providing guarantees, arranging the flow of payments, conducting foreign exchange transactions, acting as adviser and broker in the issue of and trade in securities, and keeping, managing and administering securities and other assets for third parties, as well as to incorporate and to participate in other enterprises and/or legal persons, whose object is connected with or conducive to any of the foregoing. The company shall be empowered to perform all acts which may be directly or indirectly conducive to its object.

2.3 The term public authorities as referred to in paragraph 1 means:

a. municipalities and other legal persons in the Netherlands under public law as referred to in Article 1, paragraphs 1 and 2, of Book 2 of the Civil Code;

b. the European Communities and other bodies possessing legal personality to which part of the function of the European Communities has been entrusted pursuant to the treaties establishing the European Communities;

c. Member States of the European Communities and other bodies possessing legal personality to which part of the administrative function of such a Member State has been entrusted pursuant to the law of that Member State;

d. legal persons under private law;
   - half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to in a, b and c of this paragraph; and/or
   - half or more of whose share capital is provided directly or indirectly by one or more of the bodies referred to in a, b and c; and/or
   - half or more of the income side of whose operating budget is provided or secured directly or indirectly by one or more of the bodies referred to in a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies; and/or
   - whose operating budget is adopted or approved directly or indirectly by one or more of the bodies referred to in a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies; and/or
   - whose obligations towards the company are guaranteed directly or indirectly by one or more of the bodies referred to in a, b and c or will be guaranteed pursuant to a scheme, bye-law or law adopted by one or more of such bodies, for which purpose obligations include non-guaranteed obligations resulting from prefinancing or other financing which, after novation, will create obligations that will be guaranteed by one or more of such bodies pursuant to a scheme, bye-law or law adopted by one or more of such bodies; and/or
   - who execute a part of the governmental function pursuant to a scheme, bye-law or law adapted by one or more of the bodies referred to in a, b and c.

APPENDIX

New Omrin investments lead to substantial CO_2 emissions avoided

The section Decline in CO2 emissions of loan portfolioaddresses the development of the CO_2 emissions in the BNG Bank loan portfolio. An Omrin project provides a concrete example of how the bank's loan portfolio contributes to reducing the CO_2 emissions of customers. Omrin is a waste collector and processor that processes the waste of approximately 8000 households and many businesses. Omrin's mission is to recover as many raw materials as possible from waste and to produce sustainable energy. Omrin has invested in the construction of a new industrial unit housing a 'Dano drum' and necessary facilities. BNG Bank financed the construction project. The Dano drum ensures that potentially fermentable material that would otherwise be incinerated can undergo fermentation. The result is an increase in biogas and subsequently green gas production. Part of the residual product is then processed with composted material and wood chips to produce biofuel for power stations.

This processing method reduces the volume of combustible residue transported to Omrin's Waste to Energy Plant (REC: Reststoffen Energie Centrale), releasing capacity for the incineration of waste from other sources. Omrin's REC has a higher level of efficiency than other waste incineration plants. The same volume of waste can therefore produce a higher yield of electricity and heat. The difference in yield results in higher emissions avoided.The emissions avoided are associated with extra CO_2 equivalent emissions as a result of the production, construction and installation. The additional reprocessing of biogas to green gas also means increased energy consumption. The associated CO_2 equivalent emissions have been calculated on the basis of the ratio of green to non-green power consumption in the Netherlands (18% / 82%). The CO_2 equivalent emissions of the construction of the industrial unit and the production and installation of the Dano drum and necessary facilities were also examined. Based on conservative estimates, the conclusion reached is that this has a very limited effect over the lifespan of the facilities. These emissions were therefore not included in the calculation. The result is a net total of 6,202 tonnes of CO_2 equivalent emissions being avoided annually (see table below).

Omrin received a 40% subsidy for the project. The remaining 60% was provided by BNG Bank. Based on the attribution method, it can be concluded that the financing provided by the bank results in 3,721 tonnes (60% of 6,202 tonnes) of CO2 equivalent emissions avoided.

CO_2 equivalent emissions avoided	Extra CO_2 equivalent emissions
Green gas: 2,785 tonnes	**Electricity consumption: 1,265 tonnes**
Liquid digestate: 1,228 tonnes	**Industrial unit: negligible**
Extra REC waste: 3,454 tonnes	**Dano drum etc.: negligible**
Total CO_2 equivalent emissions avoided: 7,467 tonnes	**Total extra CO_2 equivalent emissions: 1,265 tonnes**
Net total avoided: CO_2 equivalent emissions: 6,202 tonnes	

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