Interim Report 2009

BNG is the bank of and for local authorities and public sector institutions. BNG's specialized financial services help to minimize the cost of social provisions to the public. In this regard, the bank plays an essential role in the public sector.

BNG's mission is translated into the following strategic objectives: to retain substantial market shares in the Dutch public and semi-public domain and to achieve a reasonable return for the shareholders. Maintaining an excellent credit rating and retaining a competitive funding position, as well as managing the bank's business as effectively and efficiently as possible, are necessary prerequisites to this endeavour.

The bank's shareholders are public authorities exclusively. BNG's clients are primarily comprised of local authorities and public sector institutions in the areas of housing, healthcare, education and public utilities. BNG provides customized financial services ranging from loans and advances, funds transfers and electronic banking to consultancy and asset management. BNG also participates in public-private partnerships.

Founded in 1914, BNG is a statutory two-tier company under Dutch law (structuurvennootschap). Half of the bank's share capital is held by the State of the Netherlands and the other half by municipal authorities, provincial authorities and a water board. BNG is established in The Hague and has no subsidiary branches.

After the State, BNG is one of the largest issuers in the Netherlands. BNG-issued debt securities are rated AAA by Standard & Poor's, Aaa by Moody's and AAA by Fitch. In addition, the bank has been awarded the highest Financial Strength Rating (A) by Moody's and the highest Individual Rating (A) by Fitch.

In the first half of 2009, BNG benefited from the tentative improvement in market conditions. Compared to the same period in 2008, the bank's *net profit* rose by EUR 41 million to EUR 114 million. This increase was mainly attributable to the interest result, which improved as a result of the sharply lower money market interest rates combined with the, given the market conditions, relatively short-term funding. This development started in the last months of 2008 and is continuing on a more limited scale in 2009.

The volume of new long-term lending showed a substantial decline in the reporting period, mainly as a result of sharply lower demand for long-term lending from clients. Due to the heightened uncertainties in the healthcare and housing association sectors, the investment propensity diminished in these sectors. As a consequence, long-term lending decreased by EUR 2.1 billion to EUR 3.1 billion compared to the same period in 2008. The investment restraint among clients was reinforced by higher risk spreads that the bank was compelled to charge. This was partly compensated by the historically low interest rates in absolute terms in the first half of 2009. The bank's market shares stabilized at the high levels of previous years.

Short-term lending, by contrast, increased considerably in the reporting period. Compared to the same period in 2008, average short-term lending to clients grew by EUR 1.5 billion to over EUR 5.5 billion. Alongside hopes of a further recovery of the financial markets and a subsequent reduction in risk spreads on long-term loans, the anticipated sale of the shares in Nuon and Essent supported this increase. Ahead of the receipt of the sale proceeds, the local government involved showed a preference for short-term credit.

Partly due to the robust government intervention the turbulence in the international money and capital markets subsided in the first half of 2009, leading to slightly improved opportunities for raising long-term funding. After rising sharply in the last quarter of 2008, the credit and liquidity spreads with which the bank is confronted in its long-term funding are currently showing a slight downward trend. Nevertheless, the bank is still compelled to pay investors historically high risk spreads.

At the same time, the spreads that financial institutions pay for raising funds under the Government's Guarantee Scheme establish a floor under the spreads that are charged to the bank. In the first half of 2009, the bank raised EUR 7.4 billion (2008: EUR 9.3 billion) of long-term funding for refinancing and new lending. The weighted average term of the issues improved compared to the last quarter of 2008, but still decreased slightly by 0.4 year to 3.8 years compared to full-year 2008. The long-term funding consists virtually entirely of bond loans issued under the standardized EUR 80 billion Debt Issuance Programme.

The *interest result* for the first half of 2009 amounted to EUR 175 million (first half of 2008: EUR 119 million). The interest result received a mainly non-recurring positive impulse from the interventions by central banks, which have substantially reduced money market interest rates since October 2008. The beneficial effect of the steeper yield curve, caused by the decrease in money market interest rates, was reinforced by a relatively modest increase in short-term funding as part of the bank's overall funding. The growth of the loan portfolio was also an important factor in the higher interest result.

Compared to the same period in 2008, the item *result financial transactions* decreased by EUR 4 million to EUR 23 million negative in the reporting period. Despite the generally cautious recovery in the financial markets, the changes in the credit and liquidity spreads show differences across products and countries. BNG has recognized an unrealized charge of EUR 20 million net (first half 2008: EUR 28 million negative) in respect of interest-bearing securities and loans in the balance sheet item *financial assets at fair value through the income statement*. The creditworthiness of the underlying portfolio is still very high however. The future cash flows are not in doubt.
Alongside unrealized market value adjustments, the item *result financial transactions* consists of unrealized results on transactions included in a hedge accounting relationship. In the first half of 2009, this result amounted to EUR 6 million negative (first half 2008: EUR 13 million positive), mainly due to short-term interest rate volatility. The bank's hedge accounting is operating almost to perfection. Over the longer term, therefore, positive and negative results of hedge accounting are being cancelled out.

The remainder of *result financial transactions* amounts to EUR 3 million positive against EUR 4 million negative for the comparable period in 2008 and mainly concerns value movements of derivatives not included in a hedge accounting relationship. Interest rate movements play an important role in this respect. The reversal of earlier unrealized negative market value adjustments also contributes to the positive outcome.

The *commission result* for the first half year amounts to EUR 16 million, an increase of EUR 5 million compared to the first half of 2008. The major contribution came from the higher income from credit facilities and project finance, where the bank increasingly acts as agent. The contribution of the wholly owned subsidiary BNG Capital Management was EUR 3 million, the same as in the comparable period in 2008. *Other income* decreased by EUR 3 million to EUR 2 million, mainly due to lower non-recurring income.

In the first half of 2009, the consolidated *operating expenses* remained virtually stable at EUR 30 million. Notably expenses relating to the outsourcing of payments and IT processes were lower compared to the same period in 2008. In April 2009, these activities were transferred from Ordina to Centric. BNG is confident in a successful continuation of the outsourced activities and expects the continuity of the processes to remain guaranteed.
Due to CAO (collective bargaining agreement) increases, *staff costs* were slightly higher in the first half year compared to the same period in 2008 and amounted to EUR 17 million. On June 30, 2009, the bank employed 228 FTEs (year-end 2008: 229 FTEs). Including subsidiaries, the number came to 284 FTEs (year-end 2008: 280 FTEs).

Total assets as at June 30, 2009 amounted to EUR 102.4 billion (year-end 2008: EUR 101.4 billion). Despite the decreased new lending to clients, this rise was mainly attributable to *loans and advances*, which rose by EUR 1.1 billion to EUR 76.8 billion. Loan agreements concluded in earlier years that took effect in 2009 played an important role in this respect.

On the liabilities side of the balance sheet *funds entrusted* increased by EUR 1.4 billion to EUR 7.9 billion in the first half of 2009, mainly due to a rise in deposits made by clients who are increasingly seeking the safety of the BNG balance sheet for the placement of their temporary surplus funds. Part of the raised funding was placed for a very short term with the central bank, causing a temporary increase in *cash and cash equivalents* on the assets side to EUR 2.0 billion.
The *debt securities* balance sheet item declined by EUR 1.4 billion to EUR 77.8 billion, mainly due to repayments on short-term funding under the ECP-programme. Despite the challenging market conditions, BNG did not face difficulties to fund itself through the money and capital markets.

The balance sheet items *financial assets available for sale* and *financial assets at fair value through the income statement* decreased slightly in the reporting period due to repayments. On balance, the fair value of the underlying assets - which, alongside structured loans consist mainly of investments in West European government bonds, covered bonds and residential mortgage-backed securities (RMBS) – remained virtually flat compared to year-end 2008.

The investments chiefly serve liquidity management purposes. The outstanding principal of these investments, of which EUR 5.1 billion was reclassified to *banks* and *loans and advances* on July 1, 2008, decreased by over EUR 0.1 billion to EUR 11.3 billion compared to year-end 2008. The RMBS investments exclusively concern the most creditworthy parts of the securitizations and have very high ratings. These investments (outstanding principal EUR 4.1 billion, of which EUR 1.1 billion under Dutch government guarantee) concern bonds where the collateral consists of West European residential mortgages. The covered bonds (outstanding principal EUR 1.4 billion) are also secured by high-quality assets. In the period under review, the RMBS investments were negatively revalued by EUR 31 million before tax, of which EUR 4 million was recognized in the income statement. The remainder was included in the revaluation reserve within *equity*. The covered bonds were negatively revalued by EUR 5 million through the income statement. The total amount of revaluations due to changes in the credit and liquidity spreads of investments that was recognized in the income statement is on balance EUR 10 million positive.

The bank's *equity* showed a slight increase in the reporting period due to the fact that the net profit exceeded the dividend payment. BNG's strong solvency position is reflected in the high BIS- and Tier 1-ratio. Both ratios stabilized at 20% and just over 18%, respectively. At 2.0%, the capital ratio – realized equity as a percentage of total assets – also remained unchanged compared to year-end 2008.

In the second half, a study will be carried out on the Government's behalf with a view to setting up optimal funding arrangements for municipal and provincial authorities and affiliated sectors such as housing associations and healthcare institutions. This initiative is being taken in response to the losses that some municipal and provincial authorities suffered following the bankruptcy of a few banking institutions. The possible consequences for the banking sector in the Netherlands will be part of the study. Conclusions and decision-making are expected in April 2010.

In the second half of 2009, the interest result is expected to continue receiving a positive impulse from the substantial difference between long-term and short-term interest rates. This advantage will be partly offset by higher refinancing charges due to higher credit and liquidity spreads that the bank has to pay for long-term funding. It is likely that the availability and pricing of long-term funding will continue to be affected by the uncertain market conditions in the second half of 2009. A consequence may be that the risk spreads on long-term funding remain relatively high. The interest result is expected to decrease in the second half of 2009 to a more normal level for BNG.
The result financial transactions is expected to be better than last year. Though there is still no structural recovery, market conditions are improving at this moment. As a consequence, the unrealized negative market value adjustments resulting from higher credit and liquidity spreads are currently expected to be lower than in 2008.
The bank's loan portfolio is of an extremely high quality and almost entirely risk-free. Though there are currently no concrete indications, it cannot be ruled out that the current recession might affect the creditworthiness of a few debtors.

Despite all uncertainties the bank expects to realize a higher result in 2009 than in the preceding financial year.

N.V. Bank Nederlandse Gemeenten
The Hague, August 28, 2009

Executive board
C. van Eykelenburg, *Chairman*
J.J.A. Leenaars
J.C. Reichardt

Supervisory board
H.O.C.R. Ruding, *Chairman*
Y.C.M.T. van Rooy, *Vice-Chairman*
(as well as Secretary)
R.J.N. Abrahamsen
H.H. Apotheker
H.G.O.M. Berkers
S.M. Dekker
W.M. van den Goorbergh
R.J.J.M. Pans
A.G.J.M. Rombouts

Consolidated balance sheet as of June 30, 2009

In millions of euros

	30-06-2009	31-12-2008
Assets		
Cash and cash equivalents	2,005	497
Banks	7,944	8,956
Loans and advances	76,811	75,699
Financial assets at fair value through the income statement	2,637	3,001
Financial assets available for sale	5,111	5,185
Other financial assets	7,371	7,695
Associates and joint ventures	108	105
Property and equipment	24	24
Other assets	413	203
Total assets	**102,424**	**101,365**
Liabilities		
Banks	4,366	3,285
Funds entrusted	7,850	6,439
Subordinated loans	175	170
Debt securities	77,767	79,157
Financial liabilities at fair value through the income statement	514	791
Other financial liabilities	8,541	9,359
Other liabilities	1,216	185
Total liabilities	100,429	99,386
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	(45)	(29)
Currency translation account	(11)	(3)
Other reserves	1,792	1,708
Net profit	114	158
Equity	1,995	1,979
Total liabilities and equity	**102,424**	**101,365**

Consolidated income statement

In millions of euros

	First half of 2009		First half of 2008	
- Interest income	1,610		2,154	
- Interest expenses	1,435		2,035	
Interest result		175		119
Income from associates and joint ventures		1		2
- Commission income	19		13	
- Commission expenses	3		2	
Commission result		16		11
Result financial transactions		(23)		(19)
Foreign exchange result		(1)		0
Other income		2		5
Income from operating activities		**170**		**118**
- Staff costs	17		16	
- Other administrative expenses	12		13	
Staff costs and other administrative expenses		29		29
Depreciation		1		1
Operating expenses		**30**		**30**
Profit before tax		**140**		**88**
Taxation		26		15
Net profit		**114**		**73**

Consolidated statement of comprehensive income

In millions of euros

		First half of 2009		First half of 2008
Net profit		114		73
Changes in currency translation account		(8)		0
Changes in other reserves		5		0
Financial assets available for sale				
- Unrealized value movements	(24)		(141)	
- Realized value movements	2		(1)	
- Changes in deferred taxes	6		29	
		(16)		(113)
Unrealized results through equity		(19)		(113)
Total comprehensive income		**95**		**(40)**

Consolidated cash flow statement

In millions of euros

		First half of 2009 [1]		First half of 2008
Cash flow from operating activities				
Profit before tax		140		88
Adjustments for:				
- Depreciation		1		1
Cash flow generated from operations		141		89
- Movement in banks (not due on demand)	2,497		(864)	
- Movement in loans and advances	147		(1,577)	
- Movement in funds entrusted	1,404		317	
- Taxes paid	(7)		(15)	
- Other movements in cash flow from operating activities	498		(350)	
		4,539		(2,489)
Total cash flow from operating activities [2]		4,680		(2,400)
Cash flow from investing activities				
Investments and acquisitions				
- Financial assets at fair value through the income statement and financial assets available for sale	(17)		(1,728)	
- Associates and joint ventures	(3)		(2)	
- Property and equipment	(1)		(3)	
		(21)		(1,733)
Disposals, repayments and redemptions				
- Financial assets at fair value through the income statement and financial assets available for sale	529		2,168	
- Associates and joint ventures	1		-	
- Property and equipment	-		2	
		530		2,170
Total cash flow from investing activities		509		437
Cash flow from financing activities				
Receipts in respect of debt securities		14,362		13,071
Repayments in respect of debt securities		(17,674)		(10,510)
Dividend paid		(79)		(97)
Total cash flow from financing activities		(3,391)		2,464
Net movement in cash and cash equivalents		1,798		501
Cash and cash equivalents as of January 1		227		244
Cash and cash equivalents as of June 30		**2,025**		**745**
Cash and cash equivalents as of June 30 is comprised of the following:				
Cash and cash equivalents		2,005		1,155
Cash equivalents under the banks (asset) item		20		33
Cash equivalents under the banks (liability) item		-		(443)
		2,025		**745**

|1 The Cash flow statement is prepared according to the indirect method.
|2 Interest received totalled EUR 2,732 million while interest paid amounted to EUR 2,505 million.

Consolidated statement of changes in equity

In millions of euros

First half 2009

	Share capital	Share premium reserve	Revaluation reserve	Currency translation account	Other reserves	Undivided profit	**Total**
Opening balance	139	6	(29)	(3)	1,708	158	1,979
Comprehensive income	-	-	(16)	(8)	5	114	95
Dividend payment	-	-	-	-	-	(79)	(79)
Appropriation from profit previous financial year	-	-	-	-	79	(79)	-
Closing balance	**139**	**6**	**(45)**	**(11)**	**1,792**	**114**	**1,995**

First half 2008

	Share capital	Share premium reserve	Revaluation reserve	Currency translation account	Other reserves	Undivided profit	**Total**
Opening balance	139	6	104	(1)	1,610	195	2,053
Comprehensive income	-	-	(113)	-	-	73	(40)
Dividend payment	-	-	-	-	-	(98)	(98)
Appropriation from profit previous financial year	-	-	-	-	97	(97)	-
Closing balance	**139**	**6**	**(9)**	**(1)**	**1,707**	**73**	**1,915**

Selected notes to the interim report 2009

Accounting principles
The consolidated interim figures of BNG were prepared in accordance with the accounting principles and computation methods applied for the financial statements 2008 and are presented according to IAS 34 'Interim Financial Reporting' as adopted within the European Union. The interim report does not contain all information required for full financial statements and should therefore be read in combination with the annual report 2008. All amounts in this interim report are presented in millions of euros, unless stated otherwise.

BNG has introduced the following IFRS standard with effect from January 1, 2009: IAS 1 (revised), 'Presentation of financial statements', as a result of which the consolidated statement of comprehensive income is included in this interim report for the first time. In this statement the net profit reported in the income statement is presented in combination with realized and unrealized results taken direct to equity. In this interim report BNG has not made use of the early adoption option with respect to new or revised standards and interpretations, as adopted by the European Union. This concerns the following standards and interpretations:

- Improvements to IFRSs (release date May 2008)
- IFRS 1 and IAS 27 (amendment), 'Cost of an investment in a subsidiary, jointly controlled entity or associate'
- IFRS 2 (amendment), 'Share based payment'
- IAS 23 (revised), 'Borrowing costs'
- IAS 32 (amendment), 'Financial instruments: Presentation'
- IFRIC 13, 'Customer loyalty programmes'
- IFRIC 15, 'Agreements for the construction of real estate'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'

Early adoption of the new standards and interpretations would not have any significant effect on the interim report.

Dividend
The proposed dividend of EUR 79 million for the financial year 2008 was paid out to the shareholders after the General Meeting of Shareholders in the first half of 2009. BNG has no plans to pay out an interim dividend for the first half of 2009.

Financial assets at fair value through the income statement
In the first half year of 2009, the method used to measure the fair value was altered for two transactions. The measurement of the fair value of these transactions was altered from 'valuation techniques based on non-market observable inputs' to 'valuation techniques based on market observable inputs'. The balance sheet value of these transactions at the end of June 2009 was EUR 0.6 billion. The impact on the movement in the income statement amounted to EUR 1 million positive.

Debt securities
As part of its long-term funding BNG issued EUR 7.4 billion of long-term debt securities in the first half of 2009. In the same period, EUR 6.9 billion of long-term funding was repaid.

		First half of 2009		First half of 2008
Result financial transactions				
Results from hedge-accounting		(6)		13
Market value adjustment financial assets at fair value through the income statement as a result of changes in credit- en liquidity spreads		(20)		(28)
- of which investments	10		(27)	
- of which structured loans	(30)		(1)	
Other market value adjustments		3		(4)
Result financial transactions		**(23)**		**(19)**

	30-06-09	31-12-08
Off-balance sheet commitments The off-balance sheet commitments consist mainly of contingent liabilities, irrevocable facilities and encumbered assets. The analysis below shows these components at the end of June 2009 and the comparative figures at the end of December 2008.		
Contingent liabilities	758	849
Irrevocable facilities	6,464	6,491
Encumbered assets	11,104	9,590

Declaration of responsibility

Insofar as we are aware, the interim report provides a true and fair view of the assets, liabilities, financial position and results of BNG and the subsidiaries included in the consolidation. The interim report provides a true and fair view of the position on the date of the balance sheet, the performance of BNG during the first half year and the expected developments of BNG, including its consolidated subsidiaries whose figures have been included in the consolidated interim report.

Review report

To the Supervisory Board and the Executive Board of N.V. Bank Nederlandse Gemeenten

Introduction
We have reviewed the accompanying consolidated interim financial information for the six month period ended 30 June 2009, of N.V. Bank Nederlandse Gemeenten, The Hague, which comprises the consolidated balance sheet as at 30 June 2009, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the six month period then ended. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information as at 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 28 August 2009

Ernst & Young Accountants LLP
Signed by A.B. Roeders

Design and realization: Total Identity, Amsterdam | Printer: Aeroprint, Ouderkerk a/d Amstel

FSC printed on environmentally friendly paper.

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