Annual Report 2012

BNG BANK

BANK

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PROFILE

BNG Bank is the bank of and for local authorities and public sector institutions. The bank makes a sustainable contribution to minimizing the costs of social provisions for the public.

BNG Bank's mission is translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for its shareholders. Maintaining an excellent credit rating and retaining an excellent funding position, as well as managing the bank's business as effectively and efficiently as possible, are necessary prerequisites in this endeavor. Corporate Social Responsibility is intrinsic to BNG Bank's core activities.

BNG Bank's clients primarily comprise local authorities and public sector institutions in the areas of social housing, health care, education and public utilities.

BNG Bank makes a **sustainable** contribution to minimizing the costs of social provisions for the public.

BNG Bank provides customized financial services, ranging from loans and advances, consultancy, payment services, electronic banking and asset management. BNG Bank also participates in public-private partnerships. By far the greatest part of the bank's lending is free of credit risk, because these loans are granted to or guaranteed by public authorities.

Founded in 1914, the bank is a statutory two-tier company under Dutch law ('structuurvennootschap'). All the bank's shareholders are Dutch public authorities. 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 is established in The Hague and has no branches.

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

This is an unofficial translation of the Jaarverslag 2012 (Dutch Annual Report 2012) and is provided for convenience purposes only. In the event of any ambiguity, the Dutch text will prevail.

SELECTED FINANCIAL DATA

Amounts in millions of euros

	2012	2011	2010	2009	2008
Balance sheet total	142,228	136,460	118,533	104,496	101,365
Loans and advances	90,725	90,775	86,851	79,305	75,699
of which granted to or guaranteed by public authorities	79,666	78,548	75,247	67,164	64,782
of which reclassified from the Financial assets available-for-sale item	2,603	3,219	3,724	4,226	4,569
Equity excluding unrealized revaluations [1]	2,718	2,450	2,321	2,204	2,008
Unrealized revaluations [2]	34	−553	−62	49	−29
Equity per share (in euros) [1]	48.81	44.00	41.68	39.58	36.06
Leverage ratio [3]	2.0%	1.8%	2.0%	2.1%	2.0%
BIS Tier 1 ratio [3]	22%	20%	20%	19%	18%
BIS ratio [3]	22%	21%	20%	20%	20%
Profit before tax	460	339	337	350	182
Net profit	332	256	257	278	158
Profit per share (in euros)	5.96	4.60	4.61	4.98	2.84
Proposed dividend	83	64	128	139	79
Dividend as a percentage of consolidated net profit	25%	25%	50%	50%	50%
Dividend per share (in euros)	1.49	1.15	2.30	2.49	1.42
Number of staff (in FTEs) at year-end	279	278	276	277	274
of whom employed by subsidiaries	36	41	45	58	51

1 Excluding revaluation reserve and cash flow hedge reserve.

2 This concerns the unrealized revaluations within the equity, being the revaluation reserve and the cash flow hedge reserve. Please refer to the Report of the Executive Board – Financial review; The balance sheet – and note 32 of the consolidated financial statements for further reference.

3 The solvency ratios are calculated and presented in accordance with the current Basel II regulations.

FOREWORD

BNG Bank provides financial services to local governments as well as sectors with a close government relationship. As such, BNG Bank plays a supporting role in implementing Dutch government policy, an important aspect of which is to create the highest possible standard of prosperity and well-being for the public. Through its activities, the bank has secured a key role in Dutch society over its almost 100 years of existence.

The essential role of the bank is to provide affordable financing to its lenders at all times, thereby ensuing that the costs of social provisions for the public remain low. Even in difficult times, our aim is to continue offering our services. To achieve that aim, the bank must be able to acquire funding at low interest rates under all circumstances. This requires trust from the money and capital markets, which in turn requires safeguarding our institution's first-rate creditworthiness.

> In providing affordable financing to its lenders at all times, this requires safeguarding our institution's **first-rate creditworthiness**.

The link between the bank and the social sectors is expressed in the nature of the bank's financial services, which are examined in detail in this report. Our services have also now come to include the financing of sustainable investments. These types of investments can be adequately funded with traditional forms of lending, as well as with customized products where appropriate. The bank is proactively involved in developing and offering such innovative financial products. The current economic climate and the necessary government austerity measures have however caused a delay in implementing new ways of lending.

A key theme in the financial sector is putting the client and the client's interest first. For the bank, this essentially means offering products and services that provide clients with a real benefit. The client's interest is pivotal in all decisions and developments concerning our product range. This client focus is deeply woven into BNG Bank's mission, and it resounds throughout our policy. BNG Bank has discontinued a number of products that it no longer considers socially responsible.

It is of great importance to us that a balance is struck between the interests of the three significant groups of stakeholders: customers, shareholders and employees. Employees are our most important capital and we therefore focus intensively on their development and growth, guided by the awareness that everyone's contribution is a key part of the whole.

Despite the low-risk profile of its exposures, the bank is compelled to increase its equity as the result of new banking legislation. Regulators are also explicitly calling for this. Increasing the return on the bank's equity has therefore become necessary. Furthermore, this requirement will have to be reflected in the bank's dividend policy. BNG Bank's ability to continue to charge the lowest rates in the industry is reflected in the high market shares in its core client sectors.

This year's annual report integrates the bank's financial and corporate social responsibility reporting. With this report and the information made available on the bank's website (bngbank.nl), we aim to offer optimum transparency in our operations and activities. The corporate responsibility reporting has been drawn up in accordance with the guidelines of the Global Reporting Initiative (GRI), including the GRI sector supplement for the financial sector, application level A^+.

In conclusion: BNG Bank can look back at a successful year. In light of the turmoil in the financial markets and a slew of new and proposed regulations, it is quite fair to say that 2012 was no easy year for our institution. While the current year presents us with fresh challenges, we welcome it with confidence.

On behalf of the Executive Board,

CAREL VAN EYKELENBURG
CHAIRMAN
The Hague, 1 March 2013

SUMMARY OF OBJECTIVES AND THEIR ACHIEVEMENT

Against the background of the issues facing society in general and the financial sector in particular, BNG Bank decided on five corporate social responsibility (CSR) themes in 2010 with the aim of providing its stakeholders with added value:

- safe bank: BNG Bank stands for reliable banking with added value for society;
- responsible growth: through its services, BNG Bank makes a sustainable contribution to minimizing the costs of social provisions for the public;
- engaged employees: the bank invests in its employees and values an open culture;
- environmentally conscious operations: BNG Bank develops actions to push further improvement of operations;
- a contribution to art and culture: the bank stimulates these activities, which are valued by the stakeholders.

2012 saw the bank make further progress in these themes. With respect to the theme of responsible growth, the bank focused especially on introducing real sustainability to its lending activities. The bank's key figures, together with detailed notes, are available on bngbank.nl and in this annual report. In relation to the CSR themes selected by the bank, BNG Bank also reports in its GRI index on indicators in accordance with the GRI A guidelines. This index presents the bank's achievements in 2012 or refers the reader to the location of the information in question.

The achievement of the 2012 objectives, as well as the objectives for 2013, are set out below based on the GRI core indicators chosen by BNG Bank. The objectives, to the extent they cannot be characterized as material, are in some cases formulated in more general terms for 2013 than was the case in 2012 in view of their inherent limitations. For more detailed information, please refer to the relevant sections in this report.

Selected financial data of BNG Bank.

2012 OBJECTIVES	ACHIEVEMENT OF 2012 OBJECTIVES	2013 OBJECTIVES
SAFE BANK		
Substantial market shares: profitably provide in more than 50% of the total demand for long-term credit not subject to solvency requirements by local governments, housing associations and healthcare institutions.	Achieved: > 70%.	The 2013 objectives are the same as the 2012 objectives.
Return on equity: at least 8%.	Achieved: 13.5%.	The 2013 objective is the same as the 2012 objective.
Higher absolute score on the Transparency Benchmark of the Ministry of Economic Affairs than in 2011.	Achieved. 185 points of a maximum of 200 were achieved, placing the bank 12th in the ranking of the Netherlands' 500 largest enterprises.	Achieving a high degree of transparency in the bank's annual reporting, to be demonstrated by the bank's retention of a place in the highest category of the Transparency Benchmark.
New structure of the 2012 annual report in which the CSR report is integrated with GRI application B^{+} for CSR reporting.	Achieved with the higher application A^{+}.	Integrated annual report in accordance with the GRI 4 guidelines.
RESPONSIBLE GROWTH		
Long-term lending portfolio to local governments, housing associations, healthcare and education institutions: > 85% of BNG Bank's total long-term lending portfolio.	Achieved: 94%.	The 2013 objective is the same as the 2012 objective.

2012 OBJECTIVES	ACHIEVEMENT OF 2012 OBJECTIVES	2013 OBJECTIVES
Development of two models for sustainable investments and three initiatives for transactions and/or property financing with sustainable objectives.	The objective has been changed in light of developments. In the current circumstances, both the clients and the bank are better served by using existing products.	– Development of loans to finance solar panels on housing association homes and for the greening of accommodation. – Further mapping of the turnover in long-term credit for sustainable investments.
2012 Customer Satisfaction Survey: score above the sector average.	Achieved. The bank's customer satisfaction score was 8.0 (2010: 7.6) on a scale of 1 to 10.	BNG Bank holds a customer satisfaction survey every other year. Aim for 2014: to once again achieve a score above the sector average.
ENGAGED EMPLOYEES		
Five development projects for broadening and deepening relevant knowledge among employees in the areas of risk management, CSR, BNG Corporate Code, coaching-oriented leadership as well as activities of the bank's various business units.	Largely achieved. Under the moniker 'BNG Bijdetijds' (A Modern BNG Bank), activities including 15 briefing sessions were organized for staff on risk management, the bank's corporate code, financing sustainable investments, quarterly figures and BNG Bank's position in light of current developments. Coaching-oriented leadership is to be introduced in 2013.	– Continuation of the development projects aimed at broadening and deepening relevant knowledge among employees. – Measures to further increase efficiency and cooperation. – Implementation of the coaching-oriented leadership project. – Measures following analyses of sustainable deployment and mobility.
2012 Employee Satisfaction Survey: score equaling or exceeding the sector average.	Achieved. The bank's employees rated their 'general satisfaction' with an 8.0 (2009: 7.6) on a scale of 1 to 10. This score secured the bank a 12th place in the '50 Best Employers' (< 1,000 employees) ranking; in the 'financial service providers' category this score earned a 3rd place.	The employee satisfaction survey is held once every three years. Aim for 2015: to once again achieve a score equaling or exceeding the sector average.

2012 OBJECTIVES	ACHIEVEMENT OF 2012 OBJECTIVES	2013 OBJECTIVES
ENVIRONMENTALLY CONSCIOUS OPERATIONS		
Reduce CO_2 emissions by 5% relative to 2011.	CO_2 emissions at the same level as in 2011.	The objective for 2013 is an equal or lower level relative to 2012.
10% less paper purchased than in 2011.	Partially achieved.	Reduce paper consumption relative to 2012.
Sustainable procurement intensified.	50% of procurement qualifies as sustainable.	At least maintain the level of sustainable procurement achieved in 2012.
A CONTRIBUTION TO ART AND CULTURE		
Support for 80 projects in the Netherlands.	70 projects were supported.	Support dozens of projects in the Netherlands each year.
Stimulate young talent with a single new policy area.	The BNG Circus Prize has since been established.	2013 will not see the introduction of a new policy area. Young talent will also be stimulated through the support of the projects.

1

Organization

MANAGEMENT[5]

C. VAN EYKELENBURG [1952]
CHAIRMAN OF THE EXECUTIVE BOARD

MRS. P.J.E. BIERINGA [1959]
MANAGING DIRECTOR PUBLIC FINANCE

G.J. THOMAS [1950]
MANAGING DIRECTOR SECRETARY

F.C.M. JANSE [1966]
MANAGER MARKETING AND COMMUNICATIONS

R.C.J. DE JONG [1968]
MANAGER INTERNAL AUDIT DEPARTMENT

MRS. J.C. VESTER-VOS [1960]
MANAGER HUMAN RESOURCES

J.J.A. LEENAARS [1952]
MEMBER OF THE EXECUTIVE BOARD

O. LABE [1969]
MANAGING DIRECTOR TREASURY & CAPITAL MARKETS

B.P.M. VAN DOOREN [1957]
MANAGER CAPITAL MARKETS AND INVESTOR RELATIONS

H.E. QUAST [1968]
MANAGER LEGAL & FISCAL AFFAIRS AND COMPLIANCE

J.C. REICHARDT [1958]
MEMBER OF THE EXECUTIVE BOARD

R. VAN WOERDEN [1958]
MANAGING DIRECTOR PROCESSING

P.J. KORTLEVE [1969]
MANAGER PLANNING & CONTROL

H.R. NOORDAM [1966]
MANAGER RISK CONTROL

R.G. WIJDOOGEN [1963]
MANAGER CREDIT RISK ASSESSMENT

[4] As of 1 January 2013.

[5] Each of the members of the Executive Board is responsible for a number of directorates and (staff) departments. It is illustrated which Managing Directors and Department Heads report directly to the members of the Executive Board. An organization chart can be found on bngbank.nl. The organizational structure for risk management is described in the risk section of the annual report.

DETAILS OF MEMBERS OF THE EXECUTIVE BOARD[6]

C. VAN EYKELENBURG

Appointed to the Executive Board on 1 January 2005 and appointed as Chairman on 15 October 2008. His appointment as Chairman was extended on 15 October 2012. This appointment is for a four-year period and it can be extended. In connection with his position with BNG Bank, Mr. Van Eykelenburg is a board member and treasurer of the NVB (Dutch Banking Association). Mr. Van Eykelenburg is also a member of the Executive Board of the Stichting Pensioenfonds ABP, member of the Internal Supervisory Committee of the Shell Pension Fund, Chairman of the Executive Board of the Society of Government-subsidized Museums and Chairman of the Executive Board of the W.F. Hermans Institute.

J.J.A. LEENAARS

Appointed to the Executive Board on 15 October 2002. His appointment as a member of the Executive Board is for an indefinite period of time. In connection with his position with BNG Bank, Mr. Leenaars is a member of the Supervisory Board of the Stichting Waarborgfonds HBO, a member of the Board of Stichting Centrum voor Onderzoek van de Economie van de Lagere Overheden (COELO), a member of the Supervisory Board of N.V. Trustinstelling Hoevelaken and Chairman of the Supervisory Boards of BNG Bank subsidiaries Hypotheekfonds voor Overheidspersoneel BV, BNG Gebiedsontwikkeling BV and BNG Vermogensbeheer BV. Mr. Leenaars is also Professor of Accounting Information Systems at the University of Amsterdam, Vice-Chairman of the Supervisory Board of the Chassé Theatre in Breda, member of the Supervisory Board of Gerrichhauzen & Partners BV, Chairman of the Advisory Council of ILFA and a member of the Board of Stichting NOAD Advendo Combinatie Breda.

J.C. REICHARDT

Appointed to the Executive Board on 15 October 2008 and reappointed on 15 October 2012. His appointment as a member of the Executive Board is for a four-year period and it can be extended. In connection with his position with BNG Bank, Mr. Reichardt is Chairman of the Supervisory Board of Data B. Mailservice BV, a member of the Supervisory Board of BOEI BV, a member of the Supervisory Affairs Committee of the NVB (Dutch Banking Association) and a member of the Supervisory Boards of BNG Bank subsidiaries Hypotheekfonds voor Overheidspersoneel BV, BNG Gebiedsontwikkeling BV and BNG Vermogensbeheer BV. In addition, Mr. Reichardt is a member of the Supervisory Board and Chairman of the Audit Committee of the RDW and a member of the National Renovation Platform.

[6] The Executive Board is composed of three men, whom the Supervisory Board considered to be the best candidates for these positions at the time of their appointment as members and Chairman of the Executive Board. There are currently no vacancies on the Executive Board and there will be no changes to or expansion of the Executive Board in the short term. As soon as a vacancy does arise, a candidate matching the profile drawn up by the Supervisory Board and the Executive Board will be sought. This profile is published on bngbank.nl. The desire for diversity on the Board, also in terms of gender and age, is included in this profile and will be expressly emphasized during the recruitment and selection procedure. The tasks and responsibilities of (the members of) the Executive Board are described in the Executive Board Regulation, which is published on bngbank.nl.

DETAILS OF MEMBERS OF THE SUPERVISORY BOARD[7, 8, 9]

H.O.C.R. RUDING[10, 11] [1939]

CHAIRMAN

Former Vice-Chairman of the Executive Board of Citicorp/Citibank, New York; former Minister of Finance. Appointed on 12 May 2004, reappointed on 28 May 2008, reappointed for the second time on 23 April 2012 and due to retire in 2016.

MRS. S.M. DEKKER[10,11,13] [1942]

VICE-CHAIRMAN (AND SECRETARY)

Former Minister of Housing, Spatial Planning and the Environment.
Appointed on 24 May 2007, reappointed on 26 April 2011 and eligible for reappointment in 2015.
Besides being a member of the Supervisory Board of BNG Bank, Mrs. Dekker is also a member of the Supervisory Board of Royal Haskoning DHV BV.

H.H. APOTHEKER[13] [1950]

Acting Mayor of the municipality of Súdwest-Fryslân.
Appointed on 16 May 2002, reappointed on 17 May 2006, reappointed for the second time on 26 April 2010 and due to retire in 2014.
Besides being a member of the Supervisory Board of BNG Bank, Mr. Apotheker is a member of the Supervisory Board of PPG Industries Fiber Glass BV and Chairman of the Supervisory Board of NHL Hogeschool.

MRS. H.G.O.M. BERKERS[12,13] [1955]

Former member of the Executive Board of Catharina Hospital in Eindhoven.
Appointed on 27 April 2009 and due to retire in 2013.
Besides being a member of the Supervisory Board of BNG Bank, Mrs. Berkers is also a member of the Supervisory Boards of Stichting ORO and Stichting Proteion Thuis.

T.J.F.M. BOVENS[13] [1959]

The Queen's Commissioner for the province of Limburg
Appointed on 23 April 2012 and eligible for reappointment in 2016.

W.M. VAN DEN GOORBERGH[10,11,12] [1948]

Former Vice-Chairman of the Executive Board of Rabobank Nederland.
Appointed on 15 May 2003, reappointed on 24 May 2007, reappointed for the second time on 26 April 2011 and due to retire in 2015.
Besides being a member of the Supervisory Board of BNG Bank, Mr. Van den Goorbergh is also Chairman of the Supervisory Boards of De Welten Groep Holding BV, NIBC Bank NV and DELA, a member of the Supervisory Board of Mediq NV* and member of the Board of the Catholic University of Nijmegen.

7 The Supervisory Board comprises three women and six men. Duties and responsibilities of (the members of) the Supervisory Board are described in the Supervisory Board Regulation, which is published on bngbank.nl. Supervisory Board members are appointed for a four-year period and can be reappointed twice in accordance with the Dutch Corporate Governance Code. The Supervisory Board's profile and retirement schedule can also be found on the bank's website. All members of BNG Bank's Supervisory Board have Dutch nationality.

8 BNG Bank seeks to ensure the independence of its Supervisory Board members by adhering to the following guidelines: Supervisory Board members have never been employed by the company. They have no other business relationships with BNG Bank from which they could acquire personal gain. The Supervisory Board members receive a fixed annual remuneration, which is not dependent on the bank's performance in any year. The remuneration policy for the Supervisory Board is published on bngbank.nl. There are no interlocking directorships between Supervisory Board members mutually or between Supervisory Board members and Executive Board members. Supervisory Board members hold no shares in the company.

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J.J. NOOITGEDAGT[12] [1953]
Chief Financial Officer and member of the Executive Board of AEGON NV*.
Appointed on 23 April 2012 and eligible for reappointment in 2016.

R.J.J.M. PANS[10,11] [1952]
General Director of the Association of Dutch Municipalities (VNG).
Appointed on 15 May 2003, reappointed on 24 May 2007, reappointed for the second time on 26 April 2011 and due to retire in 2015.
Besides being a member of the Supervisory Board of BNG Bank, Mr. Pans is Chairman of the Supervisory Board of Stichting Coloriet.

MRS. M. SINT[13] [1949]
Chairman of the Executive Board of Isala Clinics in Zwolle.
Appointed on 20 April 2012 and eligible for reappointment in 2016.
Besides being a member of the Supervisory Board of BNG Bank, Mrs. Sint is also Chairman of the Supervisory Board of NV ROVA.

EMPLOYEES' COUNCIL

MRS. S.P.D. HUIZER [1968]
CHAIRMAN

J.H. BOOM [1951]
SECRETARY

P.J. VAN EMMERIK [1964]
VICE-CHAIRMAN

G.J. VAN DUFFELEN [1978]

MRS. F.N. ELDERHORST-BRUSSEE [1976]

J.P. KRAUS [1970]

R. MOLINA [1954]

L.H.J.M. TULFER [1950]

F.W.A. ZWETSLOOT [1971]

9 Additional positions are only stated if they concern managerial or supervisory positions with institutions that are deemed relevant under the Management and Supervision Act. A register stating all of the Supervisory Board members' additional positions is published on bngbank.nl. Positions and additional positions with publicly listed companies in the Netherlands are indicated by an asterisk.
10 Member of the Selection and Appointment Committee as referred to in Article 16 of the Articles of Association.
11 Member of the Remuneration Committee as referred to in Article 16 of the Articles of Association.
12 Member of the Audit & Risk Committee as referred to in Article 16 of the Articles of Association.
13 Member of the Market Strategy Committee as referred to in Article 16 of the Articles of Association.

Report of the Supervisory Board

FINANCIAL STATEMENTS AND DIVIDEND PROPOSAL

The annual report of N.V. Bank Nederlandse Gemeenten is herewith presented and includes, among other information, the financial statements and the report drawn up by the Executive Board for the year 2012. The financial statements for 2012 have been given an unqualified opinion by Ernst & Young Accountants LLP. The sections relating to the corporate social responsibility reporting have been provided with an assurance report from Ernst & Young Accountants LLP. We propose to the shareholders that they adopt the financial statements and discharge the members of the Executive Board and the Supervisory Board for their management and supervisory duties, as reflected in the financial statements and the annual report. Upon adoption of the financial statements and the profit appropriation included in it, a dividend of EUR 1.49 per share with a nominal value of EUR 2.50 will be distributed for the 2012 financial year (2011: EUR 1.15).

COMPOSITION OF THE SUPERVISORY BOARD

The size and the profile of the Supervisory Board remained unchanged during the year under review. The composition of the Supervisory Board was in line with the profile.

In the year under review, Mr. R.J.N. Abrahamsen, Mr. A.G.J.M. Rombouts and Mrs. Y.C.M.T. van Rooy retired from the Supervisory Board. They brought their expertise and experience to the Board from 2006, 2000 and 2004 respectively. Mr. Rombouts was also the Chairman and a member of the Market Strategy Committee while Mr. Abrahamsen was a member of the Audit & Risk Committee. Mrs. Van Rooy was Vice-Chairman and Secretary of the Board and a member of the Selection and Appointment Committee and the Remuneration Committee. The Board is extremely grateful for their contributions.

In connection with the retirement of Mr. R.J.N. Abrahamsen, Mr. A.G.J.M. Rombouts and Mrs. Y.C.M.T. van Rooy, the Board drew up individual profiles that are in line with the framework of the profile of the entire Board. Based on these profiles, Mr. T.J.F.M. Bovens, Mr. J.J. Nooitgedagt and Mrs. M. Sint have been nominated to replace them. The General Meeting of Shareholders appointed Mr. Bovens and Mr. Nooitgedagt on 23 April 2012 and Mrs. Sint on 20 August 2012. Following their appointment, the appointees attended the introduction program offered by BNG Bank.

In 2012, shareholders also took note of the individual profile drawn up in connection with the announcement of the retirement of Mrs. H.G.O.M. Berkers. During the annual assessment of its functioning, the Supervisory Board concluded that with the candidate the Board wishes to nominate for this vacancy, the Board and the Audit & Risk Committee would continue to meet the desired profile. The Board has sufficient members to enable the Board and its Committees to function properly.

The composition of the Supervisory Board is included in the Organization section, which provides the details of each member that are relevant to the fulfillment of their duties as Supervisory Board member.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration policy for members of the Executive Board was adopted by the General Meeting of Shareholders on 26 April 2011 and is published in full on bngbank.nl. The remuneration policy applies to the period from 1 January 2012 through 31 December 2016.

PERMANENT EDUCATION OF THE SUPERVISORY BOARD

In 2012, the permanent education program for the entire Supervisory Board included a component covering European banking regulations. The speaker was Mr. K. Lannoo, CEO at the Centre for European Policy Studies (CEPS). A meeting on Asset & Liability Management – theory and practice at BNG Bank was arranged for the members with specific skills and experience in the financial sector. The speakers were Mr. G. de Méris (partner at Ernst & Young Accountants LLP at the time) and Mr. J.J.A. Leenaars (member of the Executive Board of BNG Bank). Mr. M. van der Lof (partner at Ernst & Young Accountants LLP) and Mr. J.C. Reichardt (member of the Executive Board of BNG Bank) gave an introduction to IFRS and accounting at BNG Bank for the other members of the Board. With the exception of five instances when individual members were unable to attend program components, all members of the Supervisory Board completed the permanent education program. No members of the Supervisory Board used the opportunity to indicate individual training wishes. The Supervisory Board evaluated the effectiveness of the program, concluding that the 2012 program met its objectives and that the structure of the 2013 program should remain the same. The Board also decided which of the topics mentioned in the Dutch Banking Code should be addressed in 2013 and 2014.

PERFORMANCE OF THE SUPERVISORY BOARD

The Supervisory Board evaluates its own performance annually. The 2012 evaluation was prepared with a written survey, completed with information obtained by the Board's Secretary during interviews. The Executive Board was also consulted. The Supervisory Board concluded that its performance was adequate and that there were no special points of attention to be considered. However, the Board does wish to examine whether a more compact form of information provision would be feasible and desirable.

PROFILE OF THE EXECUTIVE BOARD

The profile of the Executive Board remained unchanged in the year under review. The composition and the division of tasks were consistent with the profile in 2012.

PERMANENT EDUCATION OF THE EXECUTIVE BOARD

Each member of the Executive Board participated in every part of the Supervisory Board's permanent education program. In addition, a member of the Executive Board made two study trips in 2012, one on the topic of 'Danish financing models' and the other on 'The British approach to financial problems, including the regulation of banks'. A second member of the Executive Board participated in the conference on 'The Eurozone break-up, How will it happen and what impact will it have?', organized by Capital Economics, and the annual 'Central Banking Conference', organized by Nomura, while a third member participated in the 'Risk annual summit 2012' and attended a meeting on IFRS, organized by Ernst & Young. The educational activities undertaken were reported to the Supervisory Board and the resulting evaluations were discussed during the annual assessment interviews that the Chairman and the Secretary of the Supervisory Board held with the individual members of the Executive Board. The Supervisory Board concluded that the members of the Executive Board meet the criteria set out in the Expertise Policy Rule by the Netherlands Authority for the Financial Markets (AFM) and the Dutch central bank (DNB).

ACTIVITIES OF THE AUDIT & RISK COMMITTEE

The Audit & Risk Committee met three times during the year under review. All the meetings were attended by the internal and external auditors. For the review in the plenary Supervisory Board meeting, the committee prepared the discussion on the quarterly and semi-annual figures, the annual financial statements, the management letters of the internal and external auditors including the Executive Board's accompanying comments and the social annual report. The internal and external auditors were present during the review of the annual financial statements in the Supervisory Board meeting. In addition, the Audit & Risk Committee prepared the decision-making for the review by the plenary Board meeting with regard to BNG Bank's risk appetite (including its risk management policy and profile, capital allocation and liquidity commitment), the status report on the loan portfolio subject to solvency requirements, and the country and sector analyses. Furthermore, the Audit & Risk Committee discussed the 2011 Compliance Report, the 2011 Incidents Report, the 2013 Compliance Program, the 2013 IAD Annual Plan, the external auditor's audit plan regarding BNG Bank's 2012 annual financial statements, the reports on the tripartite talks between the Dutch central bank, BNG Bank and the external auditor, and the valuation of financial instruments. These topics were also discussed by the plenary Board. Furthermore, a report on the composition of the liquidity portfolio was submitted to the Audit & Risk Committee. As a rule, the Audit & Risk Committee consults with the internal and external auditors once a year without the presence of the Executive Board. No points of special interest emerged from this consultation in 2012.

ACTIVITIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee met once during the year under review. The committee prepared the decision-making in the plenary Supervisory Board meeting with regard to the Executive Board's variable remuneration targets for 2012 and the 2011 Remuneration Policy Report. The preparation of the last point was combined with the discussion in the plenary Supervisory Board meeting.

ACTIVITIES OF THE SELECTION AND APPOINTMENT COMMITTEE

The Selection and Appointment Committee met five times during the year under review. For the plenary Supervisory Board meeting, the committee prepared the decision-making with regard to the (re)appointment of Supervisory Board members, the reporting regarding the Executive Board's variable remuneration targets for 2011 (leading to the determination of the Executive Board's variable remuneration), the division of tasks within the Executive Board, the additional positions held by members of the Executive Board, and the permanent education program for the Supervisory and

Executive Boards. In addition, the committee evaluated the profile of the Supervisory Board in relation to imminent vacancies.

ACTIVITIES OF THE MARKET STRATEGY COMMITTEE

The Market Strategy Committee met twice in the year under review. It is the committee's responsibility to discuss the relevant developments concerning BNG Bank's client groups and the adequacy of the existing and potential services to these client groups. To that end, a dialogue was organized between the committee, several experts with specialist knowledge of BNG Bank's core client sectors and the bank's own sector specialists. The dialogue examined the critical success factors for public-private partnerships, the desired business model for housing associations and financeability of the healthcare sector. The conclusions were included in the bank's long-term plan. Furthermore, the committee prepared the discussion by the plenary Supervisory Board meeting on the commercial components of the 2013 annual plan, with a particular focus on sector developments, portfolio management and policy related to principal bankers. Finally, the committee prepared the decision-making with regard to corporate social responsibility aspects relevant to BNG Bank.

OTHER ACTIVITIES OF THE SUPERVISORY BOARD

During the reporting period the Supervisory Board met six times. Besides the points mentioned above, the following subjects came up for discussion: the 2011 Remuneration Policy Report, including the Executive Board remuneration policy, the connection between the remuneration policy for senior management and the principles of the remuneration policy for other employees including the highest variable remunerations, the social policy (as part of the social annual report), the capitalization and dividend policy, the result of the Supervisory Review and Evaluation Process (SREP), the policy on providing derivatives to customers, the preparation of the General Meeting of Shareholders, the bank levy, the new rules on treasury banking, and the report from the Dutch Banking Code Monitoring Committee and its implications for BNG Bank. The plenary meeting of the Board approved the long-term plan, the annual plan and the 2013 budget, the 2013 risk appetite and the amendment of the Supervisory Board Regulations in light of the Regulation on Controlled Remuneration Policies. The Supervisory Board discussed the highest variable remunerations within the bank and concluded that they were consistent with BNG Bank's remuneration policy.

REMUNERATION POLICY FOR THE EXECUTIVE BOARD MEMBERS

The remuneration policy for members of the Executive Board was adopted by the General Meeting of Shareholders on 27 April 2009 and is published in its entirety on bngbank.nl. The remuneration policy is within the frameworks of the central government's remuneration policy for state participations, the Dutch Corporate Governance Code and the Dutch Banking Code. The fixed component of the remuneration consists of 12 times the monthly salary plus vacation pay. For each Executive Board member, the annual variable remuneration is maximized at 35% of the fixed remuneration. Effective the 2013 financial year, the variable remuneration is maximized at 25% of the fixed remuneration. Each year, the Supervisory Board sets quantitative and qualitative targets for the variable remuneration. Each target is awarded a weight in the total. If the quantitative targets are met, 70% of the maximum variable remuneration is paid. The established remuneration policy is applicable in its entirety to executives appointed after 1 January 2009. The existing employment contracts of executives appointed before that date are respected. Any room offered by these existing contracts to align remuneration with the established policy will be utilized. BNG Bank strives for terms of employment and a remuneration level for its Executive Board that are in line with the market. In line with the market means determined through comparison with what is considered normal in the sector of the Dutch labor market relevant to BNG Bank. In order to make this comparison, a reference group of financial and similar institutions in both the (semi-)public and private sectors was defined in consultation with the shareholders. In principle, the Supervisory Board examines every two years whether developments with the reference group warrant an amendment to the terms of employment of the Executive Board.

REALIZATION OF THE 2012 VARIABLE REMUNERATION TARGETS

With respect to the variable remuneration for 2012, a market share target and a margin target for lending to local governments, housing associations and healthcare institutions (weighting factor of 10%) were set, as well as a target for lending in other sectors (weighting factor of 10%) as laid down in the 2012 Annual Plan. In addition, a return target was applied (weighting factor of 40%). The qualitative targets (weighting factor of 30%) included agreements on cost control, the fulfillment of new reporting obligations following from Basel III/CRD IV (to the extent these take effect as of 1 January 2013), implementing a new collateral security administration, and maintaining a B^{+} application level for social reporting within the Global Reporting Initiative framework (including certification by an external auditor). Following the Selection and Appointment Committee's advice, the Supervisory Board determined the degree to which the

[14] The reference group comprises AFM, Agentschap Financiën, DNB, FMO, IBG, NWB, SVB, UWV, councillers of large cities, AEGON, APG, Cordares, De Lage Landen, Delta Lloyd Group, Friesland Bank, ING Group, NIBC, PGGM, Rabobank, Robeco, SNS Reaal, Triodos Bank and Van Lanschot.

2012 variable remuneration targets were met by each member of the Executive Board and decided to extend a 92% pay-out percentage to each of the Executive Board members (2011: 93%). The Supervisory Board considers this result to be fair and did not use its discretionary authority to adjust the variable remuneration. The Board also concluded that there was no reason to consider reclaiming variable remuneration awarded for previous years.

RESULTS OF THE 2012 REMUNERATION POLICY AND OUTLOOK FOR THE COMING YEARS

The current executives were appointed prior to 1 January 2009. Their employment contracts are respected. For an overview of the remuneration of the members of the Executive Board in 2012, we refer to note 33 in the consolidated financial statements.

The Executive Board members receive an annual allowance for business expenses of EUR 3,900. No shares or options are awarded. The level of the 2012 variable remuneration (32%) falls within the pre-approved range of 0% to 35% of the fixed remuneration.

Effective the 2013 financial year, the maximum variable remuneration will be lowered to 25% of the fixed remuneration. This reduction will avoid a 10% increase of the bank levy. The variable remuneration in the year under review comprises the portion paid out and the portion conditionally awarded. Portions paid out in previous financial years are therefore excluded from the calculation.

VARIABLE REMUNERATION TARGETS FOR 2013

BNG Bank's mission is translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for its shareholders. The 2013 variable remuneration targets have been set in line with these objectives. With respect to the current year, a market share target and a margin target for lending to local governments, housing associations and healthcare institutions (weighting factor of 10%) were set, as well as a target for lending in other sectors (weighting factor of 10%) as laid down in the 2013 Annual Plan. In addition, a return target (weighting factor of 40%) applies. Further to the quantitative targets, qualitative targets have also been set (weighting factor of 30%). For 2013, these targets include agreements on creating and implementing an updated price model, preparing and carrying out central clearing, and devising and implementing a new structure for valuation and hedging. Total costs should remain within the budget set for 2013. In early 2014, the Supervisory Board will assess the degree to which these objectives have been achieved. The resulting pay-out percentage can range between a minimum of 0% and a maximum of 100%. In the case of a pay-out percentage of 0%, no variable remuneration will be paid. In the case of a

100% pay-out percentage, the variable remuneration for 2013 will amount to 25% of the fixed remuneration. Half of the variable remuneration is awarded conditionally and paid out in three years' time, provided the achievement of the associated targets has not jeopardized BNG Bank's long-term continuity. Assigned variable remuneration not yet paid out can also be adjusted on the grounds of (incorrect) financial information, or unethical or non-compliant behavior.

SOCIAL ASPECTS OF ENTERPRISE

In the year under review, the Supervisory Board, following a preparatory discussion in the Market Strategy Committee, was informed of and approved BNG Bank's intended policy with respect to the financing of sustainable investments. Furthermore, the Board granted its approval to BNG Bank's CSR policy as published on bngbank.nl. In the assessment of the bank's CSR policy, the market shares and return on equity count as the most important indicators. A further objective in the year under review was the retention of the B+ application level for social reporting within the Global Reporting Initiative framework, including certification by an external auditor (weighting factor of 6%). All these objectives were achieved in 2012.

CONTACT WITH THE EMPLOYEES' COUNCIL

The Supervisory Board was represented at three of the six consultative meetings between the Executive Board and the Employees' Council. Once again, a themed meeting was organized in 2012 between the Supervisory Board, the Executive Board and the Employees' Council. The interactions with the Employees' Council are highly appreciated.

The Supervisory Board commends the Executive Board and staff for the results achieved in 2012. The bank did a commendable job in fulfilling its essential role in the public sector. ■

On behalf of the Supervisory Board

H.O.C.R. RUDING
CHAIRMAN

MRS. S.M. DEKKER
VICE-CHAIRMAN (AND SECRETARY)

The Hague, 1 March 2013

Report of the Executive Board

Introduction

BNG Bank realized a net profit of EUR 332 million for 2012, a result that yields a satisfactory return for its shareholders, despite the highly challenging market circumstances. In the year under review, the bank once again achieved very high market shares. Solvency-free lending stood at EUR 10 billion, the same level as last year. The bank's highest-possible ratings were reconfirmed by Moody's, Fitch and Standard & Poor's in 2012 and investors consider BNG Bank to be one of the safest banks in the world. There is every reason, therefore, to look back at the year under review with satisfaction. The interest result rose slightly to EUR 473 million, which was in accordance with expectations. The result financial transactions turned around from EUR 87 million negative in 2011 to EUR 88 million positive, which almost fully explains the change in total income. This turn-around is primarily the result of decreasing concerns about the European debt crisis in the second half of the year. The 2012 result was negatively affected by the introduction of the bank levy and a value reduction of the participation in Transdev-BNG-Connexxion Holding BV. Like last year, the Board proposes a dividend pay-out of 25% of the net profit . This dividend amounts to EUR 1.49 (2011: EUR 1.15) per share with a nominal value of EUR 2.50.

BNG Bank is the bank for social interests and offers specialized services at the lowest possible costs. The bank strives to be a reliable partner, to retain its strong market position and to continue and, where possible, further improve the relationship with its clients. The bank's very high market shares confirm the importance of its role. For example, the bank met over 70% of demand for solvency-free credit from the core sectors. Total new long-term lending in 2012 fell by EUR 1.2 billion to EUR 11.1 billion, as was expected given the difficult economic circumstances facing the bank's most important client groups. This fall was almost entirely due to the fall of credit subject to solvency requirements. Despite the decrease in new lending, the total long-term lending portfolio to clients based on principal amounts rose by EUR 0.9 billion to EUR 81.1 billion in 2012.

The bank's **highest-possible ratings** were reconfirmed by Moody's, Fitch and Standard & Poor's in 2012. Investors consider BNG Bank to be one of the safest banks in the world.

For both refinancing and lending purposes, BNG Bank raised a total of EUR 15.2 billion in long-term funding in 2012 (2011: EUR 16.4 billion). Due to the continuing uncertainties about the European debt crisis, the first half of 2012 in particular, was characterized by challenging circumstances in the international capital markets. The credit and liquidity risk spreads the bank had to pay for funding with longer maturity periods were high in this period. BNG Bank's funding policy, which aims to respond to investor wishes with optimum flexibility, combined with the bank's excellent credit-worthiness meant that the bank was able at all times to attract funding on relatively favorable terms and thus keep its liquidity profile at an adequate level.

BNG Bank is carefully monitoring developments in legislation and regulation. Although initial implementation deadlines are often not met and the rushed implementation of regulations can sometimes be avoided, no cancelation of proposed legislation and regulations is expected. Nearly all of the proposals will increase, either directly or indirectly, the burden on financial institutions. In addition to the implementation costs, measures such as the bank levy, the central clearing of swap transactions and the significant increase in disclosure requirements will result in a structural increase in costs. These developments will also eventually have repercussions for the customers of banks, as not only will lending become more expensive but the availability of credit will decline. In terms of legislation, BNG Bank will be most significantly impacted by Basel III/CRD IV, and by the expansion of and adjustments to IFRS. In addition, the government decision to obligate local governments to treasury banking from mid-2013 will eventually impact BNG Vermogensbeheer.

The development of the net profit is now more uncertain than ever given the changed market circumstances and also in part due to the IFRS regulations. The bank expects a small increase in the interest result in 2013. In view of the continuing uncertainties, the bank does not consider it wise to make a statement regarding the 2013 net profit. ■

Strategy

BNG Bank is the bank of and for local authorities and public sector institutions. BNG Bank'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 Bank's mission is translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain, and to achieve a reasonable return for its shareholders. These are also the key objectives of the bank's CSR policy in which the bank's economic and social value for Dutch society is formulated. Maintaining an excellent credit rating and retaining an excellent funding position as well as managing the bank's business as effectively and efficiently as possible are necessary prerequisites in this endeavor. Solvency-free lending remains the bank's core activity, in which local governments, housing associations and healthcare institutions are the most important client groups.

Substantial market share means BNG Bank strives to meet more than half of the total demand for long-term solvency-free lending from local governments, housing associations and healthcare institutions on a cost-effective basis. A reasonable return for shareholders is translated into a minimum of 8% in net return on equity. These objectives were achieved in 2012. Market shares in the core sectors are above – in some cases far above – target owing to the reticent attitude of the bank's competitors. The interest result is developing favorably, the policy pursued by the bank has allowed it to achieve profitable margins in its loan portfolio. The bank retained the highest possible ratings in 2012 and is considered one of the world's safest banks[15], despite the 'negative outlook' assigned by rating agencies Fitch, Moody's and S&P, reflecting the rating of the Dutch State.

BNG Bank wants to further enhance its role as an expert in financing public facilities in the years ahead. The bank's strategy is aimed at responding to (changing) customer needs by adhering to government policy and offering tailored solutions for the financing of sustainable investments. Although the crisis has led to a setback, BNG Bank is taking account of a partial shift toward unguaranteed (non solvency-free) lending in the long term in the area of public-private partnership

[15] Global Finance.

The bank's strategy aims at responding to (changing) customer needs by adhering to government policy and offering tailored solutions for the financing of **sustainable investments**.

and the assumption of individual responsibility for accommodation/housing in the healthcare and education sectors. Among other things, the bank invests in knowledge and know-how for finding ways to facilitate public-private partnerships, which itself results in the emergence of new financing possibilities for such collaborations.

In 2010, it was decided to fully direct new lending toward the Dutch market, and only enter into foreign lending agreements in exceptional cases. Lending to foreign clients amounts to approximately 1% of the total portfolio. Investments in foreign debt securities from EU countries are entered into if they fit the bank's liquidity management policy. In that regard, BNG Bank owns a portfolio of – mostly negotiable – debt securities from EU countries. The policy was tightened in 2011, partly due to the new Basel guidelines. Only debt securities qualifying as (very) liquid under these guidelines have since been eligible for investment. ■

Developments

ECONOMIC DEVELOPMENTS

In the year under review, the world economy grew by approximately 3.25%, approximately 0.5% less than in 2011. The fall in growth was largely caused by the crisis in the euro zone. The strongest expansion was again seen in the world's emerging economies, whose gross domestic product (GDP) rose by more than 5%. The economy of the Western countries developed along far less optimistic lines. The economy of the United States grew by more than 2% in the year under review. As in 2011, the expansion of economic activity was driven by a steady increase in private consumption. Due in part to the generous monetary policy, the housing market recovered somewhat in 2012, although new home construction remained at a low level in absolute terms. On the other hand, exports were affected by weak world trade and rose less strongly than in 2011. Influenced by lower energy price increases, inflation fell by 1.0 percentage point to 2.2%. 2012 was a difficult year for economies in the euro zone. Private consumption fell in the region as a whole as a result of additional financial burdens and restrictions in government spending. Unemployment rose from 10.7% to 11.8% of the working population, due in part to the restraint companies are showing in making new investments. While exports did increase, this growth was insufficient to avoid a drop in economic activity in the euro zone. Following an increase of 1.5% in 2011, GDP fell in the year under review by 0.4%. Despite the economic slump, the rate of inflation barely decreased. Influenced by a rise in indirect taxes and other government measures, inflation remained virtually steady at 2.5%. As a result of the restrictive EU budget policy, the euro zone countries' joint deficit dropped from 4.1% of GDP in 2011 to 3.3% of GDP in 2012. The deficit consequently approached the reference value of 3% of GDP and it remained significantly lower than in the United States and other Western countries. Gross government debt figures for the euro zone rose from 88% to 93% of GDP, clearly well above the reference value of a maximum of 60% of GDP.

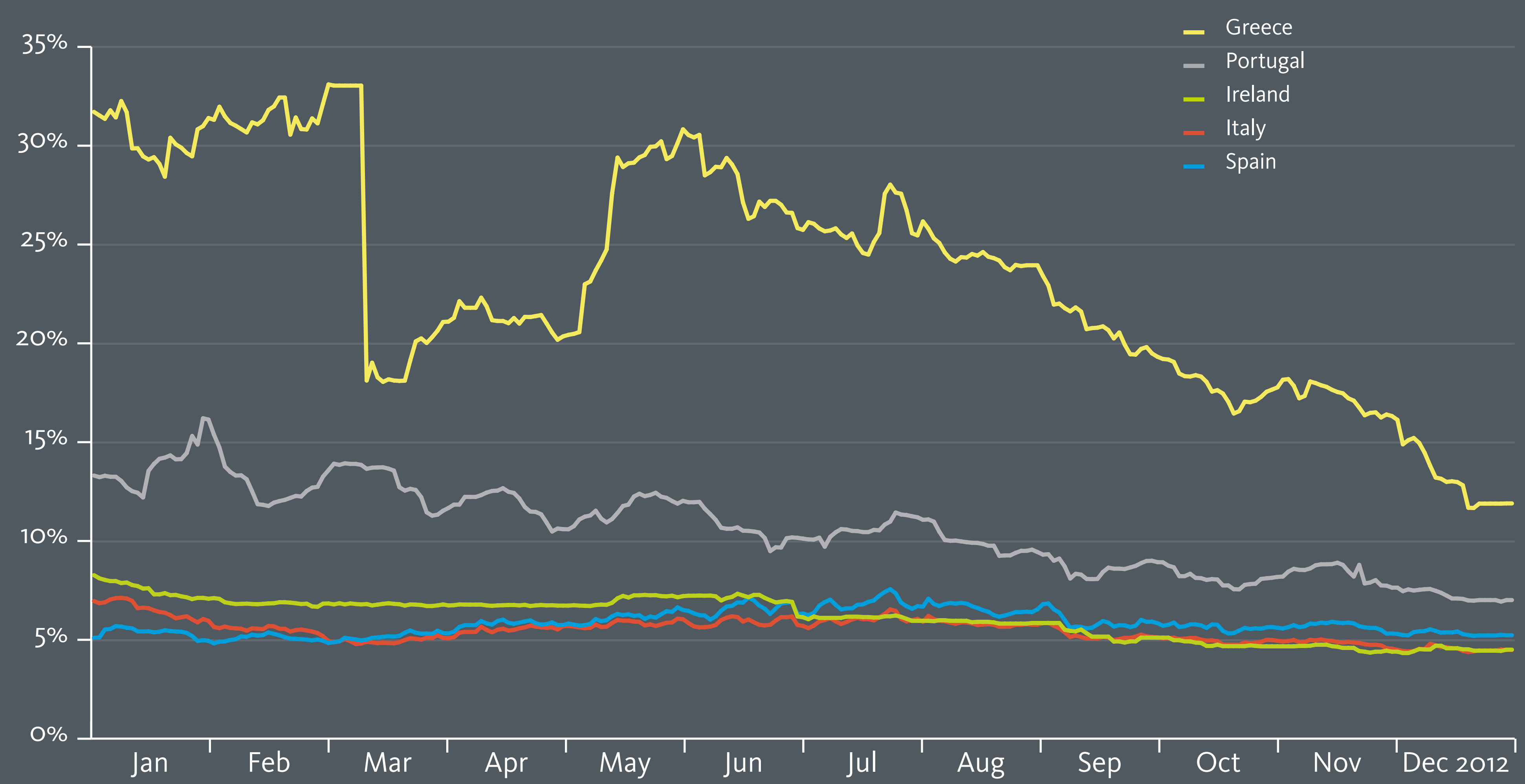
The contraction in economic activity was most serious in the southern euro countries, where the national governments have implemented relatively substantial austerity measures and economic reforms. Domestic demand in these countries was under pressure. Nevertheless, the policies enforced have not been in vain and have strengthened the competitive position of various countries. Ireland, Spain and Portugal have lowered labor costs relative to rival countries, thereby improving their export prospect. The current account balances have improved strongly as a result of the economic policy. Growth also slowed in the EU's core countries. Germany, which managed to largely evade the economic malaise last year, became increasingly vulnerable to the effects of declining demand from the weaker euro countries over the course of the year under review. As a result, GDP in the euro zone's largest economy grew by just 0.7%. In 2011 Germany still managed to grow by 3.0%. A similar development was seen in France, where GDP virtually stagnated. France still enjoyed a GDP growth of 1.7% in 2011.

The Dutch economy decreased by 0.8% in the year under review, after having experienced growth of 1.0% in 2011. In wake of developments in 2011, consumption fell by 1.0%. Government austerity measures and uncertainty surrounding the reform of the pension and social security system resulted in a fall of consumer confidence. Investments in housing were also under pressure as a result of the uncertain economic situation, but also because of plans announced by the government to rationalize the mortgage interest relief scheme, tougher conditions for mortgage lending, and the caution being exercised by banks in the provision of new loans. Due in part to weak demand from other euro countries, growth in exports fell relative to 2011. At 2.5%, inflation remained virtually unchanged. The hike in the upper VAT rate as of 1 October 2012 had a light upward effect on the inflation rate.

Also in 2012, US monetary policy remained very accommodating. Under the so-called Operation Twist program, the Federal Reserve sold short-term loans and invested the proceeds in longer-maturity loans. Following the end of this program, the US central bank decided in December 2012 to continue purchasing long-term securities until such time as the American economy has recovered sufficiently. In 2012, the Federal Reserve retained a Federal Funds Rate range of 0% to 0.25%.

The European Central Bank (ECB) also introduced further quantitative monetary easing. Following the loan of 22 December 2011, a second Long Term Refinancing Operation (LTRO) was announced as of 1 March. The two loans eventually represented an amount in excess of EUR 1,000 billion. However, the liquidity measures did not lead to restored confidence in the financial markets as was hoped. Banks remained restrained in the provision of new loans. In July 2012, ECB president Draghi announced the ECB would do whatever it takes to restore trust in the euro. The central bank then announced the so-called Outright Monetary Transactions program. Under this program, the ECB is prepared to purchase one to three-year government bonds under strict conditions. The most important conditions are that the borrowing euro zone country draws up a reform program with the IMF and the EU and that it adheres to the policy agreements included in that program. In supplement to the measures referred to above, the refinancing rate was lowered once by 25 basis points, bringing the primary lending rate to 0.75% and the rate for funds deposited with the ECB to 0%.

LONG-TERM INTEREST RATES (source: Macrobond)



The decision of the ECB to resume the purchase of government bonds under strict conditions did not go unnoticed in the financial markets. According to investors, the announcement had the effect of placing a kind of floor under the rates for bonds issued by the weaker euro zone countries. Although the central bank had not yet purchased any government bonds at the time, market confidence in the euro increased. Long-term interest rates in the majority of weaker euro zone countries fell significantly, narrowing the gap in interest rates with the core countries (see graph of long-term interest rates). In the core countries, the long-term interest rates decreased in light of inflationary expectations falling to new historic lows. For example, the return on ten-year Dutch government bonds dropped from 2.2% to 1.5% in the year under review. The return on comparable German government bonds dropped from 1.8% to 1.3% in the same period. A second factor that boosted confidence in the euro was the launch of the European Stability Mechanism (ESM) in October 2012. Furthermore, it was decided to prolong the temporary emergency fund, the European Financial Stability Facility (EFSF), until mid-2013. This facility holds a substantial amount that can be lent to euro zone countries if necessary. Thirdly, the euro zone countries made progress in rationalizing government finances in the year under review. Finally, the conditions of Greece's reform program were relaxed, allowing the Greek government to keep itself fiscally afloat for the present and therefore remain in the euro zone.

In late 2012, the euro zone countries reached agreement on joint supervision of the financial sector, the first step toward a banking union. This represents an important condition for enabling direct recapitalization of banks by the ESM, the aim of which is to end the close relationship between member state governments and banks. This relationship meant that private parties in weak euro zone countries were also confronted with high interest rates, resulting in a further exacerbation of the economic recession in these countries.
Negotiations on the next steps toward a banking union and an integrated deposit-guarantee scheme are to be held in the period ahead.

DEVELOPMENTS AND CONSEQUENCES OF THE NEW REGULATIONS

As a consequence of the crisis, financial institutions have been confronted with a succession of new legislation and regulations. Although scheduled implementation deadlines are commonly not met, no reversals of proposed new laws and regulations should be expected. Nearly all of the proposals will increase, either directly or indirectly, the burden on financial institutions.
In addition to the implementation costs, measures such as the bank levy, the obligation to centrally clear swap transactions, and the significant increase in disclosure requirements will result in permanently higher costs. These developments will also eventually have repercussions for the customers of banks, as loans

will become more expensive as well as less readily available. As a financial institution, BNG Bank will be most affected by the Basel III/CRD IV proposals and the expansion and adjustments of IFRS. In addition, the government decision to obligate local governments to treasury banking from mid-2013 will eventually impact BNG Vermogensbeheer.

The adjustments to the IFRS regulations with respect to classification and measurement of financial instruments – i.e. the replacement of IAS 39 by IFRS 9 – is expected to have far-reaching effects in terms of the balance sheet classification and accounting results of banks. According to expectations, banks will be required to measure more assets at market value, resulting in a greater volatility of results. Based on the most recent amendments to the proposals, the bank still expects to be able to value the majority of its assets at amortized cost. Hence, the consequences of this section of IFRS 9 for the annual results can be limited. The current proposals of the International Accounting Standards Board (IASB) with respect to the sections on impairment and hedge accounting may have more serious implications for the volatility of the annual result.
A deferment of the final implementation deadline from early 2013 to early 2015 was necessary since the IASB has not yet been able to garner broad support for its proposals. Consequently, it cannot be ruled out that the implementation deadline for IFRS 9 may be pushed back even further, in part as a result of pressure from the European Parliament. Nevertheless, the bank is assuming implementation at the end of 2013 in order to guarantee the availability of comparable figures for 2014. The expansions of IFRS, particularly IFRS 13 ‘Fair value management’, also have potentially serious consequences for the volatility of BNG Bank’s annual result. IFRS 13 took effect on 1 January 2013 and has resulted in an adjustment to the value of those derivatives for which the bank has entered into agreements with the counterparty with respect to the exchange of daily collateral requirements. These swaps, which the bank uses for hedging currency and interest rate risks and therefore generally held to maturity, must be valued as of 2013 based on the ‘Overnight Index Swap curve’ (OIS), which is compiled on the basis of overnight interest rates (Eonia). This will also have major consequences for the results from hedge accounting and is likely to permanently increase the volatility of the annual result.

The Basel Committee on Banking Supervision issued the guidelines for Basel III in December 2010. These guidelines have since been elaborated in European regulations and guidelines (CRD IV), although the decision-making process had not yet been finalized at year-end 2012. As a result, the commencement date has been deferred from early 2013 to early 2014 and the Basel II regulations (and the European guidelines derived from them) will therefore remain in force during 2013.

BNG Bank already complies with the standards for the risk-weighted solvency ratios and new liquidity requirements. Contrary to the majority of banks, BNG Bank is mainly concerned with the Basel Committee's proposal to introduce a minimum leverage ratio of 3% in 2018. This non-risk-weighted solvency ratio basically amounts to equity divided by the balance sheet total, and is thus automatically unfavorable for banks such as BNG Bank with a balance sheet consisting largely of solvency-free assets. The CRD IV regulations do not yet contain a definitive standard for the leverage ratio. The European Banking Authority – the acting supervisory authority for the European banking sector since 2011 – has been commissioned to prepare an analysis of the optimal ratio (partly in view of the various banks' different business models) by 2016 at the latest. This enables the bank to make a strong case toward sector organizations and regulators with regard to the negative impact of such a broad capital requirement on specialized sector banks, such as BNG Bank.

In 2012 BNG Bank updated its plan for meeting the minimum leverage ratio at the end of 2017. The plan was made available to the central bank. BNG Bank will generate the required equity growth by retaining a larger share of the net profit, possibly supplemented by the limited issue of hybrid debt securities. The General Meeting of Shareholders of 26 April 2012 approved the amendment to the dividend policy proposed in this regard. The projected pay-out percentage was lowered from 50% to 25% of the net profit, with effect from the 2011 financial year. ■

Client developments

PUBLIC SECTOR

In January 2013, VNG, IPO and the Association of Water Boards (UvW) reached an agreement with the government on a package of measures with respect to the Sustainable Public Finances Act (Wet Hof), treasury banking and the retention of the VAT Compensation Fund.

The aim of the Wet Hof is to require municipal and provincial authorities to contribute toward the reduction of the Netherlands' EMU deficit. The joint umbrella organizations (VNG, IPO, UvW) have been unanimously and severely critical of previous versions of the legislative bill, particularly as it represents an infringement of the autonomy of the municipal and provincial governments and threatens to jeopardize necessary investments at the local government level. Owing for example to inflation and population growth, municipal and provincial governments need to run a certain EMU deficit in order to carry out their tasks, which require investments to replace and expand resources and capacity.

The financial risks faced by municipalities are increasing. The current circumstances and developments represent serious challenges to municipalities. Continuing problems in area development again raise the prospect of forced write-downs. EUR 0.9 billion was written down on area development in 2010. An additional write-down of EUR 2 billion was incurred in 2011 (of which EUR 1.5 billion in direct losses and EUR 0.5 billion in loss of expected future profits). The losses are mainly the result of project deferment and lower expected land yields. It is worth mentioning that construction programs have been cut back to only a relatively limited extent. Given the current market situation, it seems unavoidable that land will have to be taken off the market in some regions. This will result in an expected additional loss of around EUR 1.5 billion. Obviously, these losses are mostly being incurred in municipalities pursuing active land policies. Many municipalities have traditionally viewed revenues from area development as a regular source of income. The losses incurred in area development therefore raise the prospect that other areas of municipal policy may be affected accordingly.

Mandatory treasury banking (without a lending facility) is being introduced. The effects on local governments are somewhat mitigated by the exemption from the obligation for relatively small amounts and the possibility created for municipal and provincial authorities to lend money to each other in order to somewhat set off the negative effect on returns.

Following consultations with the umbrella organizations, the cabinet decided to withdraw its proposal to abolish the VAT Compensation Fund. The most important reason for this reversal was the influence the proposal would have on investment opportunities and the costs of local governments. An annual maximum budget will be adopted from 2015 for applications to the fund and the planned permanent cut-back the abolition would entail will be effected via a deduction from the Municipality and Province Fund.

The cabinet has also announced a number of far-reaching measures that will not only have consequences for the duties, but also for the structure of the public sector. A number of important duties are to be transferred to the municipalities in the years ahead. These relate to Youth Care as well as activities in the area of support, supervision and care currently provided under the Exceptional Medical Expenses Act (AWBZ). The funds allocated to these activities are considerable. Of the current AWBZ budget of roughly EUR 24 billion, EUR 10 billion will eventually go to the municipalities. A considerable saving through efficiency gains is factored into this figure. Finally, the cabinet has announced a far-reaching reorganization of the public sector. It proposes the abolition of the water boards and the transfer of their tasks largely to the provinces. The government wishes to reform and scale up the provinces and municipalities.

The bank is examining the large number of proposals and measures – of which a considerable portion is yet to be adopted definitively in legislation and regulations – in terms of the possible effects they will have on the bank's business model and the opportunities they present for further expanding services to the municipal and provincial authorities.

SOCIAL HOUSING

Loans to housing associations attained a high level in 2012 and primarily involved refinancing arrangements. As a result, the bank's housing association loan portfolio only increased slightly despite the high demand for credit. This is in line with previous expectations regarding investments on the part of housing associations.

Discussions in the housing association sector in 2012 revolved around financial policy, the use of derivatives by the sector, and regulation, in particular financial regulation. These discussions were held in the wake of liquidity problems at one of the Netherlands' largest housing associations as a result of collateral requirements tied to the association's derivative position. The liquidity problems at the housing association concerned became so severe that the association's continuity was at risk. An important element in the chosen solution was the restructuring support from the Central Housing Fund (CFV), which support will have to be borne by the sector as a whole. This means that the Social Housing Guarantee Fund (WSW) guarantee scheme was not called upon, neither through the support funded by the reserves of the WSW, nor from commitments from the housing associations participating in the WSW. The restructuring support that is expected to be required – also for a number of other housing associations – has resulted in the minister widening the powers of the CFV to impose restructuring levies on housing associations.

These developments greatly fueled the discussion within the sector regarding governance, regulation and risks. A number of regulation and governance issues are already addressed in the Approved Organizations (Public Housing) Reform Act legislative bill. Both the WSW and the CFV have since tightened their procedures for monitoring the derivative positions of housing associations. Furthermore, on 1 October 2012, the financial derivatives policy for housing associations took effect, which sets out strict rules on the use of derivatives. The Minister of the Interior and Kingdom Relations also established the Housing Association Scope Determination and Regulation Committee, which made recommendations in early 2013 on the financial policy and regulation of housing associations. Furthermore, the Lower House of the Dutch parliament has announced a parliamentary inquiry in response to the developments.

A committee of the Association of Netherlands Municipalities (VNG) has conducted an investigation with a view to gaining an understanding of the risks run by municipalities in their backstop position in the current guarantee system. This committee argues for the current guarantee system to be retained with municipalities in the backstop position, although it makes several recommendations for improving the provision of information to backstop municipalities and mitigating risks. This investigation underlines the importance of the present financing and guarantee system for the funding of the housing association sector, a position that is in line with the bank's own view.

BNG Bank has always been extremely cautious regarding derivative contracts. As a result of the derivatives policy referred to above, BNG Bank is currently not entering into any new derivative contracts with its clients in the housing association sector.

The tax on housing associations announced by the previous government has been further increased under the current coalition agreement. On the other hand, however, the housing associations will be allowed to implement an additional income-related rent increase. However, the additional rental income generated by this increase is not expected to sufficiently compensate the increased tax on housing associations and this may adversely affect the associations' scope to invest.

HEALTHCARE SECTOR

To keep the healthcare sector affordable, accessible and of high quality, the government implemented a large number of drastic measures in 2012. The measures seek to transform the existing supply-based healthcare system into a demand-based system. Healthcare institutions are being stimulated to operate with greater efficiency and effectiveness while maintaining the highest possible standard of quality. The role of the healthcare insurers is crucial in this transformation. The higher risk they now run when purchasing care will force them to focus more keenly on securing value for money. As an additional safeguard, the government can resort to its macro management instrument (macrobeheersinstrument, 'MBI'), whereby budget overruns of healthcare expenditures by hospitals can be recovered retrospectively.

A new funding system was introduced for hospital care as of 1 January 2012. The function-based funding system is making way for a performance-based funding system. The so-called 'B-segment' – which concerns care activities requiring negotiations between hospitals and healthcare insurers with respect to price and quality – has been raised to 70% of total hospital production. A fixed availability-based compensation rate is applicable for specific healthcare activities that are not suitable for performance-based funding.

The new cabinet is seeking to cut around EUR 5 billion in healthcare costs. In addition to a reduction in the basic healthcare package and higher patient contributions, these cuts mostly concern measures affecting long-term treatment and care. The main thrust of prevailing government policy on hospital care will be continued. The covenants concluded to control the growth of healthcare expenditure will remain in force. The new government has adopted the legislative bill allowing the investment, under specific conditions, of private capital with a profit motive in the hospital care sector. Furthermore, the new government wants healthcare insurers to be able to acquire a minority interest in hospitals.

The main thrust of existing policy on long-term care and treatment will also be continued. The AWBZ is to be transformed into a new national facility for people with disabilities and seniors, and will be limited to the provision of relatively more intensive types of care. The reduction of the AWBZ will be achieved by transferring responsibility for the provision of relatively lighter types of care to the Healthcare Insurance Act and the Municipal Social Support Act (Wmo). With the reform of the AWBZ, the government hopes to save EUR 4 billion. ■

Products and services

Lending is and remains the bank's core activity. BNG Bank also provides payment services, consultancy services, participates in area development initiatives and offers sustainable investment opportunities that are in line with the Local and Regional Authorities Financing Act (Wet Fido). The bank's major products and services are described in the corporate brochure, which is published on the bank's website.

LOANS AND ADVANCES

One of BNG Bank's strategic objectives is to be able at all times to meet the demand for credit from local authorities and public sector institutions. Despite the difficult economic circumstances of the past few years and the resulting squeeze on the availability of funds, the bank has succeeded in continuing its lending activities without interruption. Due in part to the reticent attitude of the bank's competitors since the start of the current crisis, BNG Bank's market shares in all sectors have remained stable at very substantial levels in the past few years.

At EUR 11.1 billion, new long-term lending in 2012 is slightly higher than budgeted. The drop by EUR 1.2 billion relative to 2011 can be almost fully attributed to the local government sector. The falling demand for credit in this sector is primarily caused by announced austerity measures, on the one hand, and declining revenues brought about by the worsening economic situation, on the other. Following the peak in 2010 – due to uncertainties regarding new regulations on WSW guarantee options – and the decline in 2011, demand from the housing association sector returned to a more usual level in 2012. The demand in 2012 for new loans and advances from the healthcare sector was similar in scale to 2011. Given the increased risks, the bank was forced to approach demand from this sector – particularly with respect to transactions with solvency requirements – with caution in 2012. Credit risks have risen, due in part to the growing influence of market forces. In addition, the high turnover in recent years has contributed to an increased concentration risk for this portfolio of the bank. Reflecting this consideration, the volume of lending subject to solvency requirements fell by EUR 0.9 to EUR 1.1 billion in 2012 relative to the previous year.

Due to deteriorating economic conditions and outlook among local governments and housing associations, the demand for lending subject to solvency requirements fell dramatically in these sectors in 2012. This development was exacerbated by the relatively strong rise in credit spreads for these types of loans.

The total long-term lending portfolio to clients based on principal amounts rose by EUR 0.9 billion to EUR 81.1 billion in 2012. Despite the relatively low levels of new loans to local governments, this rise was almost completely due to the growth of the portfolio in this sector driven by the pay-out in 2012 of loans contracted in previous years. The other sectors remained virtually stable. Relative to 2011, the average volume of short-term lending to clients declined by EUR 0.1 billion to EUR 5 billion. Influenced by the extremely low short-term interest rates, consolidation of short-term debts has somewhat stagnated in the past few years.

CONSULTANCY

BNG Advies supports BNG Bank's clients in making strategic investment decisions. In an increasingly complex environment, public organizations are increasingly faced with issues in which multiple interests must be combined and the inherent risks are higher. With a growing shortage of funds, more must be achieved with less money. This requires innovative solutions and well-considered decisions. BNG Advies supports clients in finding such solutions. Each year BNG Advies organizes master classes on topical subjects for executives.

AREA DEVELOPMENT

BNG Gebiedsontwikkeling realizes spatial planning projects by taking a risk-bearing interest in such projects and providing operational plan management capacity. This is done in close cooperation with the government parties concerned, taking public interests into account. Risk sharing and limitation structures are set up in such a manner that the control of the public or semi-public organization involved is not impaired. At the end of 2012, BNG Gebiedsontwikkeling was participating in 24 joint ventures. In 2012, four participations were completed and one new participation was initiated. BNG Gebiedsontwikkeling is feeling the effects of the economic crisis. These are manifested in the standstill of sales and lower land prices, especially in housing schemes. Nevertheless, the year under review saw a number of significant sales in several business parks under development. The current economic circumstances as well as changing legislation and different views being adopted by partners mean it is still unclear as to how the market will develop in the years ahead. Given these uncertainties and the current situation, the extremely cautious policy currently in place will be maintained.

ASSET MANAGEMENT

BNG Vermogensbeheer focuses on asset management for public sector institutions. The volume of assets under management rose in 2012 from EUR 5.9 billion to EUR 6.4 billion. BNG Vermogensbeheer invests chiefly in investment grade bonds within Europe for both individually tailored investment portfolios and investment funds. Sustainable investments and sustainable portfolios lead to satisfying solutions and returns for clients. In order to invest sustainably, BNG Vermogensbeheer cooperates with specialized institutions.

PAYMENT SERVICES AND E-BANKING

BNG Bank provides products and services that enable clients to efficiently organize and manage their payments and liquidity. A pivotal role in these services is played by the 'Mijn BNG' ('My BNG') web portal. A key component of this portal is the electronic banking module 'BNG Betalingsverkeer' ('BNG Payment services'), which enables clients to process their payments quickly and safely via the internet. The 'BNG Treasury' module supports customers with their treasury management.

In 2012, further steps were taken in the development of the European payment market, the Single Euro Payments Area (SEPA). BNG Bank adjusted its products accordingly. No later than 1 February 2014, bank transfers and direct debits in the Netherlands must be processed in accordance with SEPA guidelines. BNG Bank is supporting its customers in getting ready for this change. BNG Bank managed to retain its strong position in the field of payment transactions in the year under review, and also processed the fund flows between the central government and local authorities (the so-called 'Rijksverrekening' ('State settlement')) without any problems in the year under review. ■

Funding

BNG Bank's long-term funding is largely carried out through the issuance of bonds under the standardized EUR 90 billion Debt Issuance Programme. The bank raises funds in various currencies, with terms and conditions tailored to the needs of both institutional and private investors. BNG Bank's funding policy, which aims to respond to investor wishes with optimum flexibility, combined with the bank's excellent creditworthiness means that the bank was able to attract funding on highly competitive terms.

Due to the continuing uncertainties about the European debt crisis, the first half of 2012, in particular, was characterized by challenging circumstances in the international capital markets. The credit and liquidity risk spreads the bank had to pay for funding with long maturity were high in this period. Only following announcements from the president of the ECB in mid-2012 on the sustainability of the euro did the turmoil in the international capital markets begin to taper off. Partly as a result of the difficult economic circumstances, the bank issued more relatively small yet long-term tailored loans in various currencies to investors. These developments allowed the bank to attract sufficient long-term funding and thus keep its liquidity profile at an adequate level in 2012. To cushion any temporary shocks in the availability or the pricing of long-term funding, the bank took a precautionary measure by increasing the maximum volume of the ECP program by EUR 5.0 billion to EUR 20 billion in early 2012. BNG Bank continued to enjoy its reputation as a 'safe haven' in 2012, resulting in parties preferring to park their temporary excess liquidity with BNG Bank. This in turn allowed the bank to meet its short-term funding needs on very attractive conditions.

For both refinancing and lending purposes, BNG Bank raised a total of EUR 15.2 billion in long-term funding in 2012 (2011: EUR 16.4 billion). The weighted average maturity of the total long-term funding remained virtually unchanged at 6.5 years relative to 2011. In 2012, the bank issued bonds in 13 different currencies. The currency and interest rate risks of these issues are fully hedged. The share of euro-denominated issues amounted to 46% in 2012. Apart from the euro, bonds were principally denominated in US dollars (28%).

The bank issues a number of benchmark loans each year, so that BNG Bank yield curves in euros and US dollars continue to be available to institutional investors. In 2012, BNG Bank issued five benchmark loans in euros and US dollars, with amounts varying from 1.0 to 2.5 billion. The euro equivalent of the total amount issued in benchmark loans for 2012 is EUR 8.9 billion (2011: EUR 9.3 billion). ■

Financial review

RESULTS

BNG Bank realized a net profit of EUR 332 million for 2012, which is an increase of EUR 76 million compared with 2011. The result financial transactions turned around from EUR 87 million negative in 2011 to EUR 88 million positive in 2012, which almost fully explains the change in total income. This turn-around is primarily the result of decreasing concerns about the European debt crisis in the second half of the period under review. The 2012 result was negatively affected by the introduction of the bank levy in 2012 (EUR 32 million) and an impairment on the participation in Transdev-BNG-Connexxion Holding BV (EUR 21 million). Net profit before taxes increased by 35% to EUR 460 million relative to 2011. The tax burden, excluding the bank levy, rose by EUR 45 million to EUR 128 million.

The 2012 interest result rose by EUR 11 million to EUR 473 million relative to 2011. The increase is mainly attributable to the increased volume of the long-term portfolio. The continuingly steep interest curve also positively influenced the interest result in the period under review. The return on the portfolio lagged somewhat behind expectations in 2012 as a result of the relatively high spreads the bank had to pay, especially in the first half of the year, for new long-term funding to refinance the portfolio.

The result financial transactions was EUR 88 million positive in the period under review (2011: EUR 87 million negative). In the second half of 2012, gradually growing confidence in the euro zone and the euro led to falling credit and liquidity spreads on loans to the financially weaker countries in Europe. As a result, BNG Bank recognized an amount of EUR 40 million in unrealized positive revaluation on interest-bearing securities and loans in the balance sheet item financial assets at fair value through the income statement (2011: EUR 114 million negative). The credit risk arising from derivative transactions with clients increased in 2012, resulting in an unrealized negative result of EUR 11 million (2011: nil). In addition, the result financial transactions comprises unrealized market value adjustments from transactions involved in hedge accounting. This result was EUR 27 million positive in 2012 (2011: EUR 11 million positive). Although the bank's hedge accounting is highly effective, the current turbulent market conditions have created levels of result volatility that are unusually high. Positive and negative results from hedge accounting cancel each other out in the longer term. The remainder of the result financial transactions amounted to EUR 32 million positive (2010: EUR 16 million positive) and was mainly caused by the positive revaluation of derivatives not involved in hedge accounting and the realized results from the sale of interest-bearing securities in the balance sheet item financial assets available-for-sale.

The commission result for 2012 fell by EUR 2 million to EUR 25 million relative to the previous year. The decrease was almost entirely due to lower commission income from credit facilities. The almost EUR 7 million contribution from BNG Vermogensbeheer to the commission result was on par with the result in 2011.

The persistent crisis is still having a relatively limited impact on BNG Bank's high-quality loan portfolio. Nevertheless, in the first half of 2012 a debt just shy of EUR 1 million was settled and charged to the incurred loss provision. The higher risks in the loan portfolio furthermore prompted an addition of EUR 8 million to the incurred loss provision, which now amounts to EUR 39 million. The unfavorable economic developments have also negatively impacted the results from the participations of BNG Gebiedsontwikkeling. The 2012 result from associates and joint ventures was EUR 2 million negative owing to lower result prospects in the participations. At EUR 3 million, the equity invested in some other participations was partly or fully impaired. Partly as a result of the loss of a number of concessions by Connexxion in the second half of 2012 and the strongly deteriorating outlook for this participation, BNG Bank has also decided to fully impair the goodwill of EUR 21 million paid in 2007. The expectations the bank had in 2007 regarding, for example, the liberalization of the public transport sector in the Netherlands were not realized in practice. This is partly the reason why Connexxion was not able to achieve the development that had been factored into the valuation of the share at the time of purchase. As a result, the total amount in impairments in the year under review was unusually high at EUR 32 million. The introduction of the bank levy resulted in a non-budgeted and non-deductable burden of EUR 32 million.

In line with expectations, consolidated total operating expenses increased by EUR 4 million to EUR 64 million compared to 2011. Due to the provision for a necessary reorganization at BNG Gebiedsontwikkeling and the higher payments for social security contributions and pensions, staff costs rose by EUR 3 million in the period under review compared to the previous year. Investments in new systems pushed IT costs above the 2011 level.

THE BALANCE SHEET

The balance sheet total rose in 2012 by EUR 5.8 billion to EUR 142.2 billion. The loans and advances item fell by EUR 0.1 billion to EUR 90.7 billion in the year under review. The financial assets available-for-sale item rose by EUR 2.1 billion to EUR 9.0 million, mainly as a result of the expansion of the liquidity portfolio required by the Basel III regulations. The main reason for the increase in the balance sheet total lies beyond the bank's sphere of influence. The historically low long-term interest rates are having major – accounting – consequences. Value changes of swap transactions to hedge the currency and interest rate risks and the associated collateral requirements are stated in the balance sheet. The inclusion in the balance sheet is particularly reflected in the strong rise of the asset item amounts due from banks (increase in collateral requirements) and the other financial assets and other financial liabilities items. The accounting effects will decrease as the general interest rate level climbs or – in the long term – when the active swaps reach maturity. By contrast, the economic effects are very limited as BNG Bank uses these swaps to fully hedge currency risk and largely hedge interest rate risk. Partly owing to the increase in the bank's collateral requirements, the asset item cash and balances held with the central banks dropped by EUR 2.3 billion to EUR 2.8 billion.

In the period under review the bank's equity grew by EUR 0.9 billion to almost EUR 2.8 billion. The increase is attributable to the net profit in the period under review, the dividend pay-out for the financial year 2011 and the improvement in both the revaluation reserve and the cash flow hedge reserve. The revaluation reserve rose by EUR 374 million to EUR 103 million positive due to the unrealized increase in value of interest-bearing securities in the financial assets available-for-sale item. This rise in value is primarily the result of the reversal of the increased credit and liquidity spreads of interest-bearing securities from the peripheral euro zone countries of previous years and the further fall of long-term interest rates. The recovering availability of currencies other than the euro for European financial institutions that took place in the year under review is the reason the cash flow hedge reserve became EUR 213 million less negative. In particular, the change in the so-called USD-EUR currency basis spread had a major impact on this development of the cash flow hedge reserve.

BNG Bank's strong solvency position is reflected in its high BIS Tier 1 ratio, which rose to 22.0% in the period under review. Under the Basel II regulations – which still apply in 2013 – the leverage ratio is 2.0% (2011: 1.8%). The new Basel III regulations stipulate a leverage ratio of at least 3% for banks from 2018. Despite the increase in the balance sheet total, this ratio rose from 1.5% to 2.0%. Contrary to the current regulations, the Basel III regulations require the amount of the revaluation reserve to be taken into account in the calculation of the leverage ratio. The cash flow hedge reserve remains outside the scope of the calculations. The two reserves represent unrealized value adjustments which, in principle, will not have any effect on the bank's net result.

PROPOSED PROFIT APPROPRIATION

For the year 2012, a net profit of EUR 332 million (2011: EUR 256 million) is available for dividend distribution and addition to the reserves. A dividend percentage of 25% (2011: 25%) of the net profit has been proposed. This works out at a dividend pay-out of EUR 83 million (2011: EUR 64 million). The remainder will be added to the reserves. This dividend amounts to EUR 1.49 (2011: EUR 1.15) per share with a nominal value of EUR 2.50. ■

Corporate governance

The Dutch Corporate Governance Code sets out principles and best-practice provisions for good corporate governance. The bank adheres to the principles stipulated in the Code, while duly observing the statutory two-tier rule ('structuurregime') provisions insofar as they affect a company's corporate governance structure. The regulations, codes, schemes and reporting procedures used at BNG Bank are consistent with the Code.
A separate section on corporate governance can be found on bngbank.nl where these documents have been posted.

There is only one area in which the bank does not follow the Dutch Corporate Governance Code. BNG Bank has not implemented the recommendation in relation to distant voting. Given the nature of the bank and the origin of its shareholders, the bank does not consider this to be necessary. The bank places great value on its direct contact with shareholders. In past years, the shareholders' representatives attending the General Meeting of Shareholders represented – on average – approximately 60% of the bank's share capital. Due to the fact that the shareholders are also clients, frequent contact already exists between the bank and its shareholders' representatives. The powers of control at the shareholders' meeting are proportionate to the level of contributed capital. Pursuant to the Articles of Association, the bank may not cooperate in issuing depositary receipts for shares.

DUTCH BANKING CODE

The Dutch Banking Code contains principles that are in line with the Dutch Corporate Governance Code. BNG Bank complies with the Dutch Banking Code. BNG Bank has rendered an account of how it has implemented the principles of the Dutch Banking Code on bngbank.nl. The regulations, codes, schemes and reporting procedures to which it refers are also published on the website. This also applies to the integral remuneration policy for Executive Board members, senior management and other employees of the bank. The account on the website relates to the organization and existence of the measures taken. Information on the functioning of these measures is reported in various places in this annual report; please refer to the reference table in Annex B.

The bank deviates from the Dutch Banking Code on two points: the principles 6.4.3 (variable remuneration based on the performances of the individual) and 6.4.4 (adjustment of financial performances to allow for estimated risks and capital costs). The members of BNG Bank's Executive Board are jointly responsible for the performance of their tasks. Each member is accountable for the interpretation of this responsibility. In addition, BNG Bank has a moderate remuneration policy, which is explained elsewhere in this annual report. Given BNG Bank's size and the maximum variable remuneration at BNG Bank compared with the maximum pursuant to the Dutch Banking Code, the Supervisory Board considers it to be unnecessary at present to develop a policy that provides for the assessment of the performance of the individual Board members' departments.

REGULATION FOR SOUND REMUNERATION POLICIES

The Regulation for Sound Remuneration Policies pursuant to the 2011 Financial Supervision Act came into effect as of 1 January 2011. The regulation relates to how financial institutions adopt and apply remuneration policy for employees whose duties exert a real influence on the risk profile of the financial institution. BNG Bank has implemented the principles in its remuneration policy in a way and to an extent that reflects the bank's size and internal organization, as well as the nature, range and complexity of its activities. The bank gives an account of its implementation of these principles on bngbank.nl. The bank evaluated the implementation of the regulation in 2012 and concluded that compliance with the regulation could be improved on a number of supplementary points.

IN CONTROL STATEMENT

The various risks attendant on the bank's activities are discussed each year in BNG Bank's annual report. Considerable attention is paid to BNG Bank's internal risk management and control systems. These are organized on the basis of the regulations set out in the international guidelines adopted in the context of the international capital accord known as Basel II. The structure is described in an internal risk control framework that covers all risks identified by BNG Bank. With the addition of a formal 'Risk Appetite' to the internal risk control framework, the risks the bank is willing to accept in order to achieve its objectives are more vividly described. The authors of the 'In control statements' were obligated to focus attention on the management of the risks in relation to the bank's risk appetite. The 2013 annual plans also describe how Department Heads and Managing Directors carry out their responsibilities in implementing the bank's risk appetite. The total framework is closely connected to the capital management plan, which is periodically reviewed and discussed with the Dutch central bank.

Audits by the Internal Audit Department are focused on independently determining the quality and effectiveness of the internal risk management and control systems. The bank's risk management and control systems performed effectively in the year under review, and provide a reasonable degree of assurance that the financial reports contain no inaccuracies of material significance. These systems are in themselves, 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 infringements of laws and regulations. There are no indications that the risk management and control systems will not function effectively in 2013. The internal risk management of banks is still attracting a great deal of attention and new legislation and regulations in this field are continuing to take further shape. BNG Bank took steps in 2012 to prepare for the implementation of these rules. The program started in 2011 to improve risk awareness was continued in 2012.

The external auditor audits the financial statements and evaluates the quality and effectiveness of the bank's governance, risk management and control processes, insofar as they are relevant in the context of the audit of the financial statements. The auditor's findings are reported in the auditor's report and the management letter to the Executive Board and the Supervisory Board. The internal and external auditors attend the meeting of the Audit & Risk Committee of the Supervisory Board and the Plenary Supervisory Board meeting at which the financial statements are discussed. ■

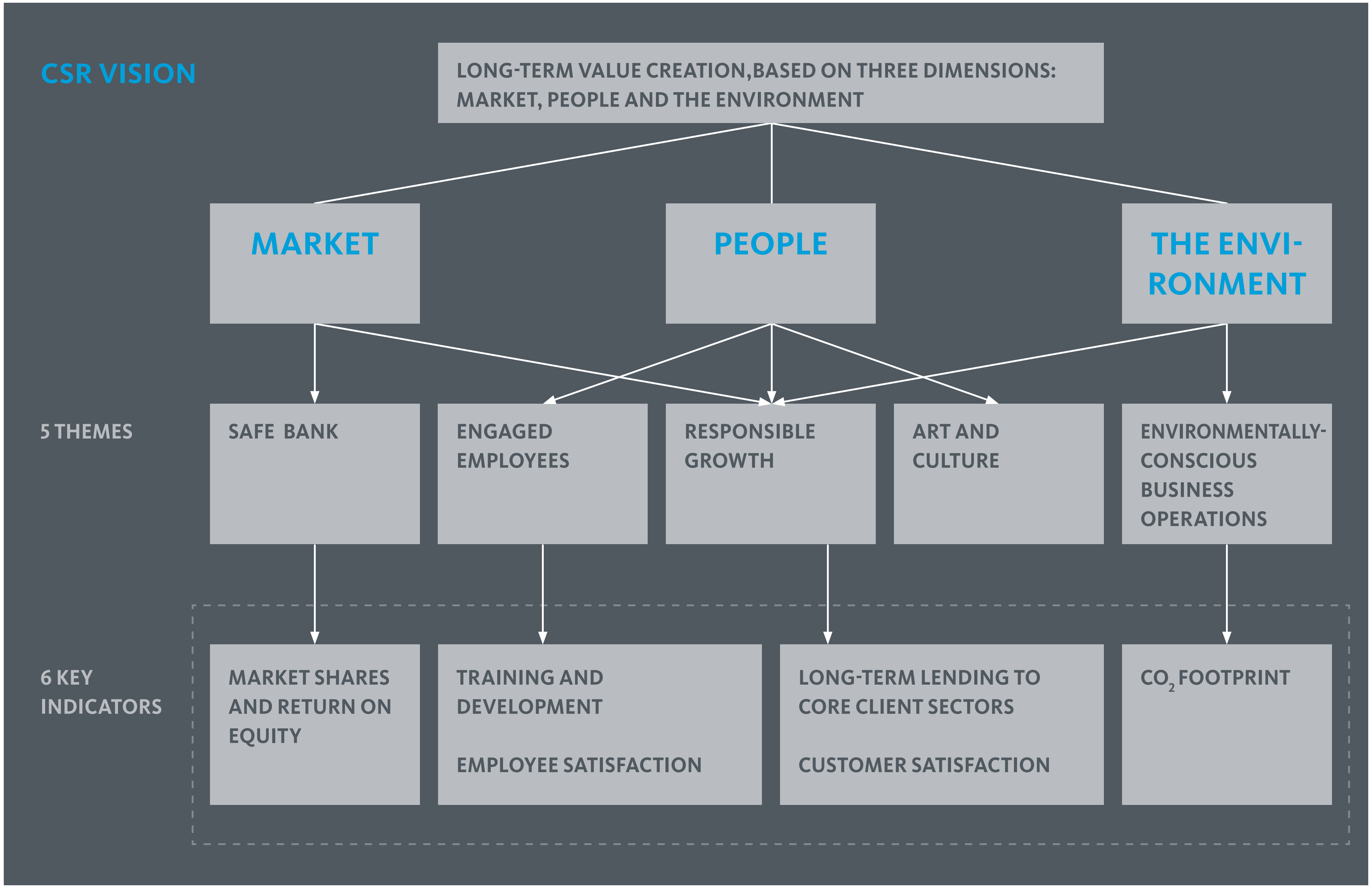
Sustainability

Given that the bank relies on the international capital markets for its funding, securing competitive rates in these markets is essential to the bank. This is made possible by the bank's high creditworthiness in terms of AAA credit ratings from Moody's, Standard & Poors and Fitch. The top ratings are based on the bank's tight management of financial risks and its sound equity level in relation to those risks. The bank employs high integrity standards. Solidity lies at the foundation of the bank's business model. Corporate social responsibility (CSR) is therefore a key condition for the bank's activities.

CSR is embedded in the bank's mission, strategic objectives and choice of CSR themes, with the associated core indicators. The bank's customer satisfaction and employee satisfaction scores as well as the score on the Ministry of Economic Affair's Transparency Benchmark fit this solid reputation. Participation in the Transparency Benchmark and the bank's reporting procedure in accordance with the guidelines of the Global Reporting Initiative (GRI) are in line with the state's policy with respect to participations.

BNG Bank wishes to adopt and support the sustainability objectives of its stakeholders. The most important way for the bank to contribute to these objectives is through the provision of loans to core customers for investments with sustainable objectives. In this regard, the added value for BNG Bank lies especially in the proactive role it can play.

The CSR policy of BNG Bank and the GRI index are integral parts of this annual report and can be found on the website of the bank. The relationship between the bank's CSR strategy and the CSR themes is illustrated in the figure on page 56.



In accordance with these guidelines, BNG Bank reports in its GRI index on these indicators. The CSR policy includes additional information on the bank's CSR vision, the value chain and the bank's chain responsibility, the stakeholders and the stakeholder dialogue, the management's approach to CSR as well as how the relevance of CSR is expressed in the bank's CSR reporting.

The bank's 2012 and 2013 CSR objectives and its achievements in light of these objectives have been included in the summary of this annual report.

SAFE BANK

As a result of the crisis and the related turmoil on the financial markets, the theme of safe banking has taken on even greater importance in today's society. BNG Bank has a reputation as being a reliable bank. Its ability to achieve its strategic objectives year on year – also in tough economic times – reaffirms its added value for Dutch society. These objectives will also serve as a guide for the bank in the coming three to five years. The continuing trust of the financial markets is a prerequisite.

In order to secure low rates for lending, the bank aims to achieve a reasonable return on its equity, not a maximum return. The bank seeks to strike a good balance in the interest of stakeholders: in order to comply with the leverage ratio from 2018 in connection with new international banking regulations under Basel III and CRD IV, a higher return than the minimum is necessary. The bank already complies with the liquidity requirements under the new regulations.

With increasing dependency on IT and the internet, it is also becoming increasingly important to control the security risks inherent in these domains. BNG Bank is directing the required attention to these issues in its operations. It is devoting specific attention to the possible consequences of cybercrime for the payment services BNG Bank provides to its customers. In view of this risk, BNG Bank is also participating in collaborative efforts of banks and the government to safeguard payment services.

As a result of the financial crisis, financial institutions have to deal with more regulations and there is a greater focus on an ethical corporate culture. In early 2012, BNG Bank introduced an updated Company Code of Conduct, which also contains the various sections of the bank's integrity policy. The Company Code of Conduct and the related regulations and procedures – including a complaints procedure – are published on bngbank.nl.

The bank considers it important to communicate the role it plays in society to a wide audience. This ambition is emphasized with the achievement of the 2012 objective, which was to integrate the financial and corporate social responsibility sections in this 2012 annual report with GRI application level A^+. Furthermore, the bank achieved its aim of a higher absolute score in the Transparency Benchmark. Objectives formulated for 2013 are reporting in accordance with the updated guidelines of the Global Reporting Initiative as well as securing a place in the highest category of the Ministry of Economic Affair's Transparency Benchmark.

RESPONSIBLE GROWTH

The added value of low rates for lending to the financial position of a government or institution cannot be measured specifically. After all, every institution follows a policy tailored to its own specific financial situation. That added value is demonstrated as long as the bank is able to achieve high market shares in its core sectors. Reflecting the bank's mission, responsible growth means that the bank, in the provision of its services, remains focused on its core customers first and foremost. Long-term loans to the bank's core customers amounted to EUR 76.5 billion (approx. 13% of GDP) at year-end 2012. The loans to these core customers represent more than 85% of BNG Bank's long-term loan portfolio, an achievement that puts the bank on target for 2012 as well as on target in terms of its long-term objective in this regard.

Reflecting the bank's mission, **responsible growth** means that the bank, in the provision of its services, remains focused on its core customers first and foremost.

An important question for BNG Bank was how to better apply its product portfolio to the theme of sustainability. The bank exchanged views with customers and employees on the various potential forms of project financing. Following these discussions, a policy was drawn up in 2011. Under this policy, three principles must underlie the application of the bank's product portfolio for sustainable projects:

- the creation of a 'win-win situation' for both the customers and the bank;
- the creation of a positive incentive for sustainable investments by customers;
- a tie-in with the bank's strategy and business activities.

Further examination resulted in a selection of possibilities in 2012. Initiatives must fall within the statutory scope of the bank, as well as within the maximum credit risk the bank is willing to take. Projects aimed at lower energy consumption emerged from the selection as promising. The selection process considered, among other things, the findings presented during a meeting with shareholders and customers on the possibilities for sustainable investments. Studies will be carried out in 2013 to determine whether these projects can be implemented.

Enhanced insights have led to the decision that in 2013 – as opposed to 2011 and 2012 – the bank will no longer prioritize the development of its own models, but will take the funding of sustainable investments themselves as a starting point. In other words, the bank will now not so much seek new forms of financing, which may well be creative and innovative, but will rather prioritize the further utilization of available options. The (small) scale of the initiatives is factored into this decision.

The accent will therefore be shifted toward emphasizing possibilities for long-term financing at competitive rates. Financing that does not take place in the form a public-private partnership can also be perfectly provided using traditional products. For the client, this may result in an advantage for the respective business cases, which is indeed a decisive factor in many cases. BNG Bank supports the client regarding the specific financing structure. Keeping loans simple and transparent and avoiding complex products with structures that are difficult to explain is in line with BNG Bank's policy.

The most important guidelines BNG Bank observes in the funding of economically feasible sustainable investments are as follows: 1) loans for sustainable investments must be primarily focused on core customers, 2) simplicity and transparency must be key elements of the financing arrangement (duty of care), and 3) in the case of a loan not guaranteed by the government, the customer must make a strong financial and substantive commitment to the arrangement.

In addition to traditional loans for sustainable investments, three options for loans in the form of public-private partnerships have been selected for further rollout or exploration and elaboration in 2013:

- financing related to Energy Service Companies for local governments. BNG Bank had already prepared models in 2011 for using sustainable investments for housing and LED street lighting projects in municipalities;
- the financing of solar panels for housing associations in partnership with a private party;
- initiatives aimed at grouping small-scale projects so their financing by the bank is more in line with the bank's own lending criteria.

BNG Bank is currently engaged in discussions with local governments, housing associations and private parties on the various options.

The implementation of these options is not without several dilemmas. Local governments seem to be apprehensive with regard to sustainable investments in public-private partnerships. An important element here is the size of the individual municipality: 300 of the 400 Dutch municipalities have fewer than 40,000 inhabitants. Municipalities need to be robust in size in order to be able to match up to the private counterparties.

Furthermore, the major cuts in government finances and the current economic climate are placing great pressure on the business cases. The other options referred to – financing solar panels and initiatives for grouping small-scale projects – still need to be drafted as business cases acceptable to the bank.

It is consequently too early to translate the possibilities outlined above into concrete turnover targets as we currently lack a sufficient understanding of the scale involved and certainly of the stability of market demand. The risk of a delayed implementation is a real one. On account of this dilemma, no quantitative objectives for 2013 and the following years have currently been formulated. The bank's activities in this area in 2013 will therefore focus first and foremost on an initial move towards the provision of loans for the rollout of solar panels for housing association homes and the greening of homes.

A key current theme in the financial sector is putting the client and the client's interest first. At the heart of this theme is the conviction that products and services must be in the interest of the client and that in balancing the various interests of the stakeholders, the customer's interest must be taken into full account. This customer focus is deeply woven into BNG Bank's public interest-oriented mission. Following the bank-wide exchange meetings on customer interest held in the previous financial year, 2012 saw an exchange of ideas with employees with a view to arriving at a joint definition in this regard. The definition chosen is: 'I place my customers first when offering them added value with my products and services.' 2012 also saw the implementation of the product approval process, in which focusing on providing a meticulous service is a key element.

At many meetings with customers and government representatives, time was set aside to discuss topical issues, such as government plans with respect to treasury banking and the funding of health care and social housing. These discussions brought the respective interests of the stakeholders into sharper focus. Partly as a result of the national debate surrounding derivatives, the bank has decided to adopt an extremely cautious attitude toward providing derivatives to clients.

In the investment process of BNG Vermogensbeheer, the focus on sustainability has been intertwined with its cooperative relationship with research agency Sustainalytics, which assesses the sustainability performance of the asset manager. Virtually all interest-bearing securities that are held in sustainable investment funds of BNG Vermogensbeheer originate from institutions that have signed the Global Compact Principles.

A subject that has been at the center of much discussion recently is the remuneration policy in the financial sector. Legislation has since been adopted prohibiting the remuneration policy of financial institutions to result in the taking of irresponsible risks or the negligent treatment of clients. BNG Bank's policy in this area can be found on the bank's website. BNG Bank pursues a moderate remuneration policy that is line with its risk profile.

Another client satisfaction survey was conducted in 2012. The survey showed that the bank enjoys a high degree of appreciation among its clients. Compared to previous years, the aim of the survey was to more clearly identify the areas for improvement which can then be prioritized depending on the importance customers attach to the various components of the service provision. The survey revealed that the complaints procedure should be improved. This procedure has since been modified.

ENGAGED EMPLOYEES

Operating amidst the developments in the financial sector and the developments at customers requires experienced and professional staff. In addition to retaining such staff, it is also essential to attract good and motivated personnel. Training and development to foster and bolster professionalism are spearheads of HR policy, not only in a technical sense but also with respect to the personal development of staff. In addition, the bank considers it important that its staff experiences a high level of job satisfaction. Both these objectives will also serve as a guide for the bank in the coming three to five years.

In line with the bank's objectives, efforts have been focused on knowledge sharing across the organization. In 2012, employees attended internal meetings where they were provided with detailed information on topical subjects such as the debt crisis, the risk appetite and CSR, and where they joined the discussion on such issues as the updated Company Code of Conduct and the financing of sustainable investments. The activities of various departments were also reviewed. Each quarter the employees are provided with an explanation of the bank's financials for the quarter in question. Whenever warranted, the chairman of the Executive Board explains current developments in meetings attended by the entire bank. At such bank-wide meetings in 2012, subjects addressed included the bank levy and government plans with respect to treasury banking. Continuation of the development programs aimed at broadening and deepening relevant knowledge among employees will remain an important focus point in 2013, especially with regard to the stimulation of knowledge transfer through internal meetings.

Raising risk awareness among BNG Bank employees again featured prominently in permanent education endeavors in 2012. The evaluation held in 2011 showed that the bank's employees appreciated clarification on this subject. Employees desired clarification in general terms and specifically regarding the bank's 'risk appetite' in practice. In addition to individual staff study programs and training courses, virtually all BNG Bank staff involved in the lending process followed a training course in 2012 to help them better identity the possible pitfalls involved in lending.

With a view to limiting the risk of insufficient sustainable deployment, the expected developments of both BNG Bank and its employees and the efflux forecasts were examined. Sustainable deployment requires that staff possess good work ability, high deployability and a high degree of vitality. The study of the bank's current workforce shows that this is indeed the case for the majority of employees. The bank aims to retain these qualities and, where necessary, further strengthen them. Concrete follow-up actions will be taken in 2013. The bank will aim to reduce the complexity of the activities where applicable.

Each year, employees and their supervisors jointly draw up a personal development plan that serves as a guide for each employee's personal development. In 2012, a large portion of BNG Bank's employees took a training course or enrolled in a study program. The average training costs per employee amounted to EUR 1,784 (2011: EUR 1,840).

The bank's objective with respect to employee satisfaction has been achieved. The survey revealed that the bank's employees feel a great sense of engagement. The results of the survey were discussed in the departmental and managerial meetings. Supplementary questions and resulting proposals have been included in the improvement proposals for the entire bank. The ensuing actions concentrate on improving interdepartmental efficiency and cooperation. The policy formulated in 2012 as a result of the foregoing will be further elaborated in 2013.

Further information on, among other things, organization and workforce, terms of employment, working conditions and staff development has been included in the GRI index on the bank's website (bngbank.nl).

ENVIRONMENTALLY CONSCIOUS OPERATIONS

Our society is searching for ways to reduce its impact on the environment. Initiatives focus on energy conservation and consequently the lowering of CO_2 emissions.

The financial services sector is seen as a sector that is not particularly harmful to the environment. Given the limited office space of the bank, the benefits to be gained are relatively small and therefore not of material significance for the bank. However, for CSR to be credible it must include environmentally conscious operations. Against this background, environmental performance in the recent period will not be compared with developments on a global, regional or local level. The policy with respect to environmentally conscious operations for the next three to five years is focused on reducing the bank's CO_2 footprint, raising environmental awareness among staff, and increasing sustainable procurement.

An overview of the activities of the **BNG Culture Fund** can be found on bngbank.nl.

The objectives for 2012 were geared toward this policy. Following the significant decrease in CO_2 emissions in 2011, emission levels remained stable in 2012. This stagnation was heavily influenced by the number of kilometers traveled by airplane for business purposes, which rose by more than 20%, and the higher number of cold days compared to 2011. The procurement of paper fell slightly, less than expected owing to the delayed implementation of new office automation systems. As a result of stricter classification norms for sustainable procurement, 50% of the bank's procured supplies can now be labeled as sustainable.

A CONTRIBUTION TO ART AND CULTURE

BNG Bank attaches great value to stimulating activities in the area of art and culture that are of importance to municipalities. To this end, the BNG Culture Fund was already established in 1964. The fund can play an important role now that the art and culture sector in the Netherlands has been affected by government austerity measures. The fund, as well as the work performed by a large number of its employees for a wide range of social projects, allows BNG Bank to express what it understands by corporate social responsibility. An overview of the activities of the BNG Culture Fund can be found on bngbank.nl. ■

Outlook for 2013

The outlook is again clouded by more than usual uncertainties. New long-term lending in 2013 is expected to be at a level comparable to 2012, but this new lending will mostly concern the refinancing of existing loans. The outlook for the bank's core clients sectors is not very positive, with a cautious attitude toward new investments as a result. Local governments are confronted with far-reaching cuts, housing associations must shoulder additional burdens and care institutions are facing budgetary challenges. BNG Bank will remain the bank for social interest – also in 2013. The market circumstances notwithstanding, the 'counter' to solvency-free lending will remain open. The negative economic circumstances and the rising credit risks will force the bank to take an even more prudent approach to the demand from customers for lending subject to solvency requirements.

BNG Bank's long-term funding needs in 2013 are expected to be on par with the level required in 2012. The bank aims to maintain its liquidity profile by attracting funding with relatively long maturity. However, developments on the international capital markets remain challenging. Unexpected higher credit and liquidity spreads for the refinancing of debt positions may put pressure on the bank's interest result.

Moreover, the bank's interest result is coming under pressure as a result of the historically low long-term interest rates, negatively influencing return on equity. Nevertheless, the bank expects that the 2013 interest result will be slightly higher than that for 2012, owing to the growth of the total portfolio of the bank, the slightly higher returns achieved in the long-term portfolio, and the steep interest-rate curve that is expected to persist. The result financial transactions will continue to be highly sensitive to the development of the European debt crisis in 2013. In addition, the switch to the valuation of derivatives using the OIS curve is expected to reduce the effectiveness of hedge accounting in 2013, with increasing results volatility as a result.

Developments on the **international capital markets** remain challenging.

In the light of the economic outlook it cannot be ruled out that several debtors may no longer be able to perform their payment obligations. The developments in Portugal and Spain remain particularly disquieting. This may necessitate another addition to the incurred loss provision or impairment. The cost level of the bank is expected to rise further as a result of the large slew of new regulations that need to be implemented in the bank's systems and processes. Consolidated operating expenses of EUR 66 million are expected in 2013.

In view of all uncertainties, the bank does not consider it wise to make a statement regarding the 2013 net profit.

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 on the balance sheet date and the performance of BNG Bank – and its consolidated subsidiaries whose figures have been included in the consolidated financial statements – during the financial year under review.
The annual report also describes the material risks facing BNG Bank. ■

The Hague, 1 March 2013

Executive Board

C. VAN EYKELENBURG
CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

Consolidated financial statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

Amounts in millions of euros

	31-12-2012	31-12-2011
ASSETS		
Cash and balances with the central banks [1]	2,834	5,149
Amounts due from banks [2]	10,171	8,448
Financial assets at fair value through the income statement [3]	3,476	3,322
Other financial assets [4]	25,824	21,519
Financial assets available-for-sale [5]	9,018	6,919
Loans and advances [2]	90,725	90,775
Investments in associates and joint ventures [6]	89	108
Property and equipment [7]	18	19
Other assets [8, 9]	73	201
TOTAL ASSETS	**142,228**	**136,460**
LIABILITIES		
Amounts due to banks [10]	6,223	7,469
Financial liabilities at fair value through the income statement [11]	2,730	628
Other financial liabilities [12]	18,692	14,367
Debt securities [13]	99,424	100,907
Funds entrusted [10]	12,139	10,944
Subordinated debts [10]	33	93
Other liabilities [8, 9]	235	155
Total liabilities	139,476	134,563
Equity [14]	2,752	1,897
TOTAL LIABILITIES AND EQUITY	**142,228**	**136,460**

The references refer to the notes to the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2012

Amounts in millions of euros

	2012		2011	
– Interest income [15]	2,115		2,327	
– Interest expenses [16]	1,642		1,865	
Interest result		473		462
Results from associates and joint ventures [17]		–2		0
– Commission income [18]	31		33	
– Commission expenses [19]	6		6	
Commission result		25		27
Result financial transactions [20]		88		–87
Other results [21]		4		4
TOTAL INCOME		**588**		**406**
– Staff costs [22]	38		35	
– Other administrative expenses [23]	25		23	
Staff costs and other administrative expenses		63		58
Depreciation [24]		1		2
TOTAL OPERATING EXPENSES		**64**		**60**
Impairments [25]		32		7
Bank levy [26]		32		–
PROFIT BEFORE TAX		**460**		**339**
Taxes [9]		–128		–83
NET PROFIT		**332**		**256**

The references refer to the notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2012

Amounts in millions of euros

		2012		2011
NET PROFIT		**332**		**256**
Changes in currency translation account		–		5
Changes in other reserves		–		−4
Changes in cash flow hedge reserve after taxation		213		−282
Changes in revaluation reserve				
– unrealized value adjustments	509		−242	
– realized value adjustments transferred to the income statement	−11		−10	
– changes in taxes	−124		43	
		374		−209
RESULTS RECOGNIZED DIRECTLY IN EQUITY (AFTER TAXATION)		**587**		**−490**
TOTAL		**919**		**−234**

CONSOLIDATED CASH FLOW STATEMENT 2012

Amounts in millions of euros

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	2012		2011	
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	460		339	
Adjusted for:				
– Depreciation	1		2	
– Impairments	32		7	
– Unrealized results through the income statement	–75		101	
Cash flow generated from operations		418		449
Changes in amounts due from and due to banks (not due on demand)	–2,791		429	
Changes in loans and advances	2,668		–1,333	
Changes in funds entrusted	619		2,676	
Changes in derivatives	–990		–322	
Corporate income tax paid	–28		–104	
Bank levy paid	–32		–	
Other changes from operating activities	–534		–495	
		–1,088		851
TOTAL CASH FLOW FROM OPERATING ACTIVITIES *		**–670**		**1,300**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	–2,142		–2,527	
– Associates and joint ventures	–2		–5	
		–2,144		–2,532
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	2,005		3,364	
– Property and equipment	–		–	
		2,005		3,364
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**–139**		**832**

* Interest received amounted to EUR 5,813 million (2011: EUR 5,809 million) while interest paid amounted to EUR 5,296 million (2011: EUR 5,261 million).

CONSOLIDATED CASH FLOW STATEMENT 2012

Amounts in millions of euros

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	2012		2011	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of debt securities	25,359		27,353	
Repayments of issued debt securities	−26,554		−25,406	
Repayments of financial liabilities at fair value through the income statement	−56		–	
Subordinated debts	−65		−4	
Dividend paid	−64		−128	
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**−1,380**		**1,815**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**−2,189**		**3,947**
Cash and cash equivalents as at 1 January		5,022		1,075
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**2,833**		**5,022**
Cash and cash equivalents as at 31 December are comprised of				
– Cash and balances with the central banks		2,834		5,149
– Cash equivalents in the amounts due from banks item		2		4
– Cash equivalents in the amounts due to banks item		−3		−131
		2,833		**5,022**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2012

Amounts in millions of euros

2012

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	CURRENCY TRANSLATION ACCOUNT	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
OPENING BALANCE	139	6	−271	−282	–	2,049	256	1,897
Realized results							332	332
Unrealized results			374	213				587
Dividend payment						−64		−64
Appropriation from profit previous year						256	−256	–
CLOSING BALANCE	**139**	**6**	**103**	**−69**	**–**	**2,241**	**332**	**2,752**

2011

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	CURRENCY TRANSLATION ACCOUNT	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
OPENING BALANCE	139	6	−62	–	−5	1,924	257	2,259
Realized results							256	256
Unrealized results			−209	−282	5	−4		−490
Dividend payment						−128		−128
Appropriation from profit previous year						257	−257	–
CLOSING BALANCE	**139**	**6**	**−271**	**−282**	**–**	**2,049**	**256**	**1,897**

Accounting principles for the consolidated financial statements

GENERAL COMPANY INFORMATION

The financial statements were prepared and issued for publication by the Executive Board on 1 March 2013 and will be presented to the General Meeting of Shareholders for adoption on 22 April 2013. BNG Bank is a statutory two-tier company under Dutch law ('structuurvennootschap'). 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 is established in The Hague, the Netherlands and has no subsidiary branches.

CRITICAL ACCOUNTING PRINCIPLES APPLIED FOR VALUATION AND DETERMINATION OF RESULTS

The consolidated financial statements are prepared on the basis of the going-concern principle. The balance sheet items are carried at amortized cost, with the exception of the following items: Financial assets at fair value through the income statement, Financial assets available-for-sale, Other financial assets, Financial liabilities at fair value through the income statement, and Other financial liabilities. These balance sheet items are recognized at fair value. The balance sheet item Investments in associates and joint ventures is stated according to the equity method. The balance sheet item Property and equipment is stated at cost less accumulated depreciation. All amounts in the consolidated financial statements are presented in millions of euros, unless stated otherwise. The euro is the functional currency and reporting currency of BNG Bank. Income is recognized insofar as it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated as far as possible to the period in which the services were provided or to the related income counterbalancing these expenses.

APPLICABLE LAWS AND REGULATIONS

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code.

In the financial statements for 2012, BNG Bank applied the new IFRS standards, amendments and interpretations represented below, as issued by the IASB and endorsed by the EU, which are mandatory with effect from 1 January 2012. The application of these standards had a limited effect on the financial statements for 2012. This concerns the following amendment:

- IFRS 7 Amendment Disclosures – Transfer of Financial Assets.

The following new IFRS standards, amendments and interpretations issued by the IASB, which are effective from 1 January 2012 but have not been endorsed by the EU, have not been applied in the financial statements for 2012. The adoption and application of these standards would not have had any effect on the financial statements for 2012. This concerns the following amendments:

- IFRS 1 Amendment – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- IAS 12 Amendment – Deferred Tax Recovery of Underlying Assets.

BNG Bank has decided against early adoption of new or revised standards and interpretations issued by the IASB – irrespective of whether they have been endorsed by the EU – whose application is mandatory with regard to financial years commencing on or after 1 January 2013. Early adoption of these new standards and interpretations might have significant effect on the financial statements for 2012. BNG Bank is currently examining the possible consequences. This concerns the following standards relevant to BNG Bank:

ENDORSED BY THE EU:

- IAS 1 Amendment – Presentation of Items of Other Comprehensive Income;
- IAS 19 Revised – Employee Benefits;
- IAS 32 Amendment – Financial Instruments: Offsetting Financial Assets and Liabilities;
- IFRS 7 Amendment – Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities;
- IFRS 10 Consolidated Financial Statements (replacing IAS 27 in part and SIC-12 in full);
- IFRS 11 Joint Arrangements (replacing IAS 31 Joint Ventures);
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement;
- IAS 27 Revised – Separate Statements;
- IAS 28 Revised – Investments in Associates and Joint Ventures;
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine.

IFRS 13 came into effect on 1 January 2013 and has resulted in an adjustment to the value of those derivatives for which the bank has entered into agreements with the counterparty with respect to the exchange of daily collateral requirements. These swaps, which the bank uses for hedging currency and interest rate risks and therefore generally held to maturity, must be valued as of 2013 based on the 'Overnight Index Swap' (OIS) curve, which is compiled on the basis of overnight interest rates (Eonia). This will also have major consequences for the results from hedge accounting and is likely to permanently increase the volatility of the annual result.

NOT YET ENDORSED BY THE EU:

- IFRS 1 Amendment - Government Loans with a below market rate interest when transitioning to IFRSs;
- Transition Guide: Amendments IFRS 10, 11 and 12;
- Investment Entities: Amendments to IFRS 10, 12 and IAS 27;
- Improvements to IFRSs 2009-2011 Cycle (May 2012);
- IFRS 1: Repeated application, Borrowing cost;
- IAS 1: Clarification of the requirements for comparative information;
- IAS 16: Classification of servicing equipment;
- IAS 32: Tax effect of distribution to holders of equity instruments;
- IAS 34: Interim financial reporting and segment information for total assets and liabilities;
- IFRS 9 Financial Instruments (2009, 2010);
- IFRS 9 and 7 Amendments – Disclosures: Mandatory effective date and transition disclosure;
- IAS 34: Interim financial reporting and segment information for total assets and liabilities;
- IFRS 9 Financial Instruments (2009, 2010);
- IFRS 9 en 7 Amendments – Disclosures: Mandatory effective date and transition disclosure.

The IASB has divided the IFRS 9 Financial Instruments project, which will replace IAS 39 in due course, into three parts. The first part of standard IFRS 9: Financial Instruments: Classification and Measurement, with a scope on financial assets, was issued in November 2009. The second part of the standard, with the supplement for financial liabilities, followed in October 2010. In relation to the second part of IFRS 9, the supplementary document on Financial Instruments: Impairment was published in January 2011. The consultation period ended on 1 April 2011, but discussions within the IASB are still ongoing. With regard to the third part of IFRS, on 7 September 2012 the IASB published a review draft on General Hedge Accounting, which is meant to align hedge accounting more closely with the bank's risk management strategy. The complete IFRS 9 standard will entirely replace IAS 39 Financial Instruments: Recognition and Measurement. The IFRS 9 standard was supposed to come into effect on 1 January 2013. The EU accepted the IASB's proposal of 19 December 2011 to postpone the effective date to 1 January 2015. Because of this postponement, all phases of the IFRS 9 standard can be introduced simultaneously. The IFRS 9 standard has not yet been endorsed by the European Union. BNG Bank is examining the effect of this new standard and does not rule out the possibility that the application of this standard will have a significant impact on equity, results and explanatory notes.

SEGMENTED INFORMATION

IFRS 8 Operating Segments stipulates that segmentation is dependent on the way in which the organization is managed. It should be considered whether or not the management's internal performance measurement is based on separate segments. BNG Bank's Executive Board does not base its analysis and decision-making with respect to performance measurement on such segmentation. Therefore, all information contained in the financial statements and the notes relates to the single segment recognized by the Executive Board.

ACCOUNTING PRINCIPLES FOR CONSOLIDATION

Each year, BNG Bank prepares consolidated financial statements for the parent company and its subsidiaries. The financial statements of the parent company and its subsidiaries as used in the preparation of the consolidated financial statements are drawn up as 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. Control means that it is possible for BNG Bank, either directly or indirectly, to determine an entity's financial and operational policy in order to obtain economic benefits from the entities' activities. Control is presumed to exist when BNG Bank, either directly or indirectly through group companies, holds more than half of the voting rights or exercises control in some other manner. Group companies are consolidated in full from the date that control has been obtained until such time that this control ceases to exist or all related risks and benefits have been transferred to third parties. In determining whether BNG Bank has control over investment funds in which it holds units or shares, the financial interests held for BNG Bank's own account as a participant, as well as its role – or that of its subsidiaries – as fund manager are taken into consideration. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank. An overview of the consolidated subsidiaries of BNG Bank is attached as Annex A. A complete list of subsidiaries has been registered in the Trade Register at the Chamber of Commerce in The Hague.

THE USE OF ESTIMATES AND ASSUMPTIONS

Where necessary, the amounts disclosed in this report are based on management estimates and assumptions. The estimates relate to the determination of the fair value of financial instruments for which there is no active market. Estimates are also used in determining impairments, deferred taxes and the employee benefits provision. BNG Bank uses valuation models to determine the fair value of financial instruments for which there is no active market. The outcome of these models is based on various assumptions, including the discount rate and expected future cash flows. Differences in the assumptions can have an effect on the reported values. BNG Bank periodically evaluates the estimates and assumptions it applies. Any revisions are reported in the year in which the estimate is revised and are also recognized in the estimates for future years.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values represent the amounts for which the financial instruments could have been traded (transaction price) or settled (settlement price) on the balance sheet date on a realistic economic basis between well-informed and willing parties in an arm's length transaction. The fair values are based on quoted market prices in active markets or, if unavailable, on modeled valuation techniques. Valuation techniques are generally used to determine the fair value of unlisted assets and liabilities and OTC derivatives. This concerns generally accepted techniques and methods such as option pricing models, discounted cash flows, forward pricing and credit and liquidity spreads. Contractual provisions are taken into account and available objective market data such as yield curves, correlations, volatilities and credit spreads are used, as well as other factors, estimates and assumptions which market parties would use to determine the price. Level 3 valuations are partially based on assumptions that are not supported by market data. For a detailed description of the fair value, please refer to note 31 of the consolidated financial statements.

IMPAIRMENTS

The Impairments item includes the impairments of financial and non-financial fixed assets. Therefore BNG Bank recognizes the changes in the incurred loss provisions (Amounts due from banks and Loans and advances) and impairments of instruments in Financial assets available-for-sale, and impairments of Investments in associates and joint ventures and of non-financial fixed assets in the Impairments item.

Impairments are recognized in the income statement if the book value of a (non-)financial asset or the cash flow generating unit to which the (non-)financial asset pertains exceeds the estimated realizable value. If the (non-)financial asset was provided against collateral, the proceeds minus costs from the sale of that collateral are taken into account in estimating future cash flows.

If irrecoverable (non-)financial assets generate cash flows after having been written down, these cash flows are recognized directly in the income statement.

IMPAIRMENT OF FINANCIAL ASSETS

On the balance sheet date, all financial assets are reviewed as to whether there are objective indicators that suggest impairment. A financial asset is impaired if objective indications exist that one or more events after initial recognition had a reliably assessable negative effect on expected future cash flows from that asset. BNG Bank establishes objective indicators in the event of a major changes in market conditions, for example in share prices and exchange rates, interest rates, degree of market liquidity, the creditworthiness of counterparties and the chance of default (in terms of amount and timeliness) of the cash flows to be received. Impairment of BNG Bank’s financial assets can be divided into two groups:

- financial assets carried at amortized cost; and
- financial assets carried at fair value, with value adjustments recognized through equity (revaluation reserve for Financial assets available-for-sale).

Financial and non-financial assets that were subjected to impairment are assessed on each balance sheet date for indications that the impairment has decreased or no longer exists. If, in a subsequent period, the amount of the impairment decreases and this decrease can be objectively attributed to an event that occurred after the impairment, the impairment recognized earlier will be reversed for all financial assets, except for the investments in equity instruments, and the amount will be recognized under Impairments in the income statement. With regard to equity instruments, this decrease will be treated as a (new) revaluation and added to equity (revaluation reserve for Financial assets available-for-sale).

FINANCIAL ASSETS CARRIED AT AMORTIZED COST

In the case of outstanding loans and receivables to banks and loans and advances carried at amortized cost, BNG Bank creates an incurred loss provision at the expense of the income statement. In determining impairments, a distinction is made between loans and receivables involving an objective indication for impairment, and loans and receivables whereby there is no objective indication for impairment. If an asset is permanently irrecoverable, it is written down to the debit of the impairment provision already created, with any difference being charged or added to the income statement item Impairments.

BNG Bank first determines whether indications exist for impairment of individual loans and advances to form this provision, taking into account the amounts that are actually expected to be received after the write-down. For all items involving an objective indication for impairment, an estimate is made at individual counterparty level of the future cash flows calculated at present value on the basis of the Discounted Cash Flow (DCF) method. The assumptions applied in this context include an estimate of the (forced-sale) value of collaterals, an estimate of payments still to be received, an estimate of the timing of these payments and the discount rate. Under IFRS, no account may be taken of uncertain future loss events. Therefore the degree of probability plays no part in determining the individual impairments other than in the cash flow projections.

Loans and advances without an objective indication for impairment are included in the collective assessment of the so-called 'Incurred But Not Identified' (IBNI) loss model. This portfolio method considers the off-balance exposures as well as the credit exposures. Important parameters in calculating the IBNI are the EAD (Exposure at Default), PD (Probability of Default) and LGD (Loss Given Default). In 2011, the method for determining the level of the IBNI incurred loss provision was changed. The new method aligns with the outcome of the internal rating models and the associated chance of a loss. As a result, the bank is considerably less dependent on management estimates when determining the level of this provision.

FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH EQUITY

The impairment of financial assets carried at fair value through BNG Bank's equity can be divided into two groups:
- Investments in equity instruments;
- Investments in debt instruments.

In addition to the objective indicators for impairment, available-for-sale investments in equity instruments, such as participating interests, also involve objective indications for impairment if the cost persistently exceeds the realizable value, that is, if the fair value is persistently or significantly lower than the cost. If there are objective indications for impairment with regard to available-for-sale investments, the difference between the cost and the current fair value, reduced by any impairments recognized earlier, is first deducted from equity (revaluation reserve for Financial assets available-for-sale) and recognized under Impairments in the income statement.

Investments in debt instruments, such as interest-bearing securities, are assessed for impairment if there are objective indications of financial problems at the counterparty, the loss of a market or other indications. With regard to available-for-sale investments, any impairment in equity (revaluation reserve for Financial assets available-for-sale) is first written off against the Impairments item in the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The book value of BNG Bank's non-financial assets (Property and equipment, Investments in associates and joint ventures), with the exception of deferred tax assets, is assessed twice a year in order to determine whether there are objective indications for impairment. To determine impairments, an estimate is made of the realizable value and individual assets are divided into groups at the lowest level at which future cash flows can be identified (cash flow generating units). The goodwill included in a participating interest is not considered separately in the impairment assessment, but is incorporated into the total book value. The realizable value of an asset or cash flow generating unit is equal to the higher of the value in use or 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 recognized in respect of cash flow generating units are first offset against the book value of any goodwill allocated to the units and subsequently offset pro rata against the book value of the other assets of the unit (or group of units). An impairment of non-financial assets, with the exception of goodwill included in the non-financial assets, will be reversed through the income statement (Impairments item) if there has been a change in the indication for impairment on the basis of which the realizable value was determined. An impairment will only be reversed to the extent that the book value of the asset does not exceed the book value minus depreciation or amortization which would have been determined if no impairment had been recognized.

NETTING

Assets and liabilities are only netted 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, and there is a distinct intention to settle either the net amount as such or both items simultaneously.

FOREIGN CURRENCY

The euro is the functional currency and reporting currency of BNG Bank, including its group companies. The consolidated financial statements are prepared in euros. Transactions in foreign currency are translated into functional currency on initial recognition at the exchange rate applicable on the transaction date, and the exchange results are charged or added to the foreign currency result. On the balance sheet date, the foreign currency items, including debt and equity instruments shown under Financial assets available-for-sale, are revalued in functional currency at the closing rate. Non-monetary foreign currency items which are carried at cost are not revalued on the balance sheet date, unless these items were designated as a hedging instrument in a fair value hedge relationship. The exchange results of monetary items arising from exchange rate and translation differences are recognized as at the balance sheet date under Result financial transactions in the income statement, with the exception of:

- the effective part of the foreign currency items that were designated in a cash flow hedge relationship. These exchange rate differences are recognized in the cash flow hedge reserve;
- non-monetary foreign currency items whereby fair value adjustments are recognized through equity, including the equity instruments under the Financial assets available-for-sale item. These exchange rate differences are recognized in the revaluation reserve in equity.

RECOGNITION AND ACCOUNTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are recognized on a transaction basis. This means they are recognized from the moment 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) as well as derivatives. Financial assets and liabilities are initially recognized at fair value plus the transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability, with the exception of the transactions recognized at fair value with results recognized through the income statement. The transactions included in these balance sheet items are measured at fair value without the addition of transaction costs. After initial recognition, financial assets and liabilities are measured at either amortized cost or fair value, depending on the classification of the transaction. In addition to the notional amount, the amortized cost (amortization value) consists of accrued interest, settled transaction costs and/or premiums or discounts that are distributed in accordance with the effective interest method over the interest rate maturity of the transaction. At a contract level, financial derivatives are stated as assets (net positive fair value) or liabilities (net negative fair value). Value movements of financial derivatives are recognized in the income statement in full.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognized when:

- 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 these cash flows on, in full and without material delay, to a third party pursuant to a special arrangement; or
- the contractual rights to receive cash flows from the asset and virtually all the risks and benefits of this asset have been transferred, i.e. when control over the asset has been transferred.

A financial liability is derecognized when the obligation specified in the contract has been discharged or cancelled, or has expired. If an existing financial asset or liability is contractually exchanged for another asset or liability from the same counterparty on substantially the same terms, the new asset or liability is treated as a continuation of the existing asset or liability at the same balance sheet value. No sales proceeds are recognized in this case. As far as the sale of financial assets and liabilities is concerned, BNG Bank applies the First In, First Out (FIFO) principle. Within this context, the difference between the proceeds from the transfer and the book value of the asset or liability is immediately and fully recognized in the income statement.

TRANSFER OF FINANCIAL ASSETS

BNG Bank continues to recognize transferred financial assets on its balance sheet if it retains all or nearly all the risks and benefits of the transferred financial assets or a part of these assets. The bank may contribute financial assets while retaining all or nearly all the risks and benefits in the context of, for example, a repo transaction. Financial assets which are sold to a third party, with a total return swap on the transferred financial assets, are recognized in the same matter as repo transactions, since BNG Bank retains all or nearly all the risks and benefits attached to the ownership of such assets.

RECOGNITION AND ACCOUNTING OF DERIVATIVES

From initial recognition, derivatives are carried at fair value and any value adjustments are recognized under the Result financial transactions item in the income statement. Derivatives with a positive market value are presented in the balance sheet as assets under Financial assets at fair value through the income statement if they are not involved in a hedge accounting relationship and under Other financial assets if they are involved in a hedge accounting relationship. Derivatives with a negative market value are presented in the balance sheet as liabilities under Financial liabilities at fair value through the income statement if they are not involved in a hedge accounting relationship and under Other financial liabilities if they are involved in a hedge accounting relationship.

EMBEDDED DERIVATIVES

Embedded derivatives are valued separately if the following conditions are fulfilled:

- there is no close relation between the economic characteristics and risks of the embedded derivative and those of the host contract; and
- the host contract is not carried at fair value, with value adjustments recognized through the income statement; and
- a separate instrument on the same terms would meet the definition of a derivative.

Derivatives that fulfill these conditions are measured at fair value at the moment of conclusion of the contract and value adjustments are recognized under the Result financial transactions item in the income statement. Contracts are only re-assessed if there is a change in the contractual terms which materially affects the expected cash flows.

HEDGE ACCOUNTING

The interest rate risks to which the bank is exposed in relation to its financial assets or liabilities and the variability in cash flows are hedged primarily by means of financial instruments. In market value terms, value movements resulting from interest rate and exchange rate fluctuations are offset. Insofar as the hedge relationship is effective, in principle hedge accounting enables the bank to neutralize the difference in result recognition between the hedging instruments and the hedged items. BNG Bank applies both fair value and cash flow hedge accounting. BNG Bank uses derivatives solely as hedging instruments. They are mandatorily measured at fair value in the balance sheet. In principle, the counterpart in the hedging relationship – i.e. the hedged item – is generally recognized at amortized cost. On the trade date of a derivative transaction, the bank designates whether or not it constitutes a hedge of the asset or liability item in the balance sheet. Hedge accounting is only applied when formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between them and the objective of the hedge. This hedge documentation should demonstrate that the hedge is expected to be effective and the way in which this effectiveness is determined. Effectiveness means that, during the reporting period, there are opposing risks between the hedging instrument and the hedged item, which are within the limits defined by IAS 39 (80%-125%). In addition, it should be demonstrated that the hedge will remain effective for the remaining term. The ineffective part of the hedge relationship is always recognized directly under the Result financial transactions item in the income statement.

The hedge relationship is discontinued when it has ceased to be effective, or when the hedged item or hedging instrument is sold or matures. The difference between the preceding balance sheet value and the amortized cost of the hedged item is amortized over the remaining term of the hedged item.

FAIR VALUE HEDGE ACCOUNTING

BNG Bank applies two types of fair value hedge accounting: micro hedging and portfolio hedging. Micro hedging relates to individual transactions involved in an economic hedge relationship concerning interest rate risk. In the case of micro hedging, there is an apparent one-on-one relationship between the hedged item and the hedging instrument. BNG Bank applies micro hedging primarily to (a large part of) the financial obligations recognized in items such as Funds entrusted and Debt securities. Portfolio hedging concerns a group of transactions that are hedged for interest rate risk using several derivatives. BNG Bank applies portfolio hedging to a large part of the Loans and advances granted and to Financial assets available-for-sale. There is no relationship between individual hedged items and hedging instruments, but it is demonstrated at portfolio level that the derivatives involved compensate the fair value changes of 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 fair value adjustment – unlike the micro hedging situation – is recognized as a single line item in the balance sheet item Other financial assets.

CASH FLOW HEDGE ACCOUNTING

Cash flow hedging is used to hedge a possible variability in future cash flows due to changes resulting from exchange rate differences. BNG Bank applies cash flow hedge accounting to foreign-currency financial obligations included in micro hedging which are recognized primarily in the Funds entrusted and Debt securities items. The effective part of changes in the fair value of derivatives (hedging instruments), resulting from changes in the cross currency basis spread, is not recognized in the income statement (Result financial transactions) but in the Cash flow hedge reserve in equity. The cumulative fair value changes resulting from cash flow hedging are transferred to the income statement (Result financial transactions) when the hedged cash flows affect the income statement. When the hedging instrument expires or is sold, terminated or exercised or the hedge relationship is discontinued, the accumulated fair value adjustments remain in equity until the expected future transaction is recognized in the income statement. If the expected future transaction is no longer likely, the accumulated fair value adjustments are directly charged or added to the result (Result financial transactions).

CASH AND BALANCES WITH THE CENTRAL BANKS

This item includes all legal tender as well as deposits with the Dutch central bank and the European Central Bank (ECB).

AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These balance sheet items include receivables (including reverse repos) held for purposes other than trading, from both banks and clients, which are carried at amortized cost. In addition, interest-bearing securities (MTNs and bonds) are partly included in these items, insofar as these are not traded on an active market. The Amounts due from banks and Loans and advances are recognized net of the incurred loss provision. For the principles concerning the incurred loss provision, please refer to the 'Impairments' section.

In 2008, part of the Financial assets available-for-sale balance sheet item was reclassified and transferred to the Amounts due from banks item and the Loans and advances item. After reclassification, these assets were initially recognized at their fair value on 1 July 2008. The difference between the fair value on 1 July 2008 and the redemption value is amortized over the remaining terms of the individual contracts.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

These balance sheet items include derivatives that do not qualify for fair value hedge accounting in conformity with the conditions set out in IAS 39. The balance sheet items also include transactions that are voluntarily designated as at fair value, with value movements being recognized in the income statement (fair value designation). BNG Bank uses this option occasionally to measure individual assets and liabilities such as loans and interest-bearing securities at fair value, with full result recognition through the income statement.
Fair value designation of transactions takes place, if:

- its purpose is to exclude an accounting mismatch;
- a portfolio is managed and evaluated at fair value;
- it concerns an instrument with an embedded derivative that is not separated.

This fair value designation of transactions, which is irrevocable, always takes place at the trade date.

OTHER FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

These balance sheet items include the market value of derivatives involved in a hedge accounting relationship (with regard to both interest rate risk and currency risk hedges). In addition, the Other financial assets item includes portfolio hedging value adjustments. These value adjustments refer to the effective part of movements in market value resulting from hedging the interest rate risk of assets at a portfolio level.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Interest-bearing securities for which there is an active market at the trade date and equity instruments (such as participating interests) that are held for an indefinite period and may be sold when liquid funds are needed – insofar as they are not recognized under Financial assets at fair value through the income statement – are classified under the Financial assets available-for-sale item. They are measured at fair value and revaluations, after deduction of taxes, are recognized in equity.
The fair value of participating interests for which no market quotation is available is determined by means of valuation methods, such as the net present value method or the visible net asset value method, from which the shareholder value can be derived. If equity instruments are not quoted on an active market and the fair value cannot be reliably determined, valuation at cost is allowed. If the interest-bearing securities are involved in a fair value hedge relationship, the effective part of the hedge is accounted for in the result, and not in equity. The interest result (interest, premiums and discounts) amortized on the basis of the effective interest method and any currency revaluation are recognized directly in the income statement. In the event that the interest-bearing securities or equity instruments concerned are sold or impaired, the sales result and the cumulative fair value movement is deducted from equity and recognized under Result financial transactions in the income statement. For the impairment principles, please refer to the 'Impairments' section.

ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are recognized pro rata in accordance with 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 contractual arrangements in which BNG Bank and other parties launch an economic activity over which they exercise joint and proportionate control. For the impairment principles, please refer to the 'Impairments' section.

PROPERTY AND EQUIPMENT

All property and equipment owned by the bank, such as buildings and durable installations, is valued at cost less accumulated depreciation, taking into account any accumulated impairment losses. The depreciation period is determined based on the estimated useful life of the assets. The estimated useful life and residual value are reviewed annually. Depreciation is calculated on a straight-line basis and is charged to the income statement. Land is not depreciated. Impairments are recognized in the income statement. For the impairment principles, please refer to the 'Impairments' section.

AMOUNTS DUE TO BANKS, DEBT SECURITIES, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

Borrowings (including repos) and debt securities are carried at amortized cost in the balance sheet. With regard to transactions in Debt securities and Funds entrusted that are involved in a micro fair value hedge accounting relationship, the amortized cost is adjusted for the effective part of the movements in market value resulting from the interest rate risk. Any of the bank's own debt that is repurchased is removed from the balance sheet, and the difference between the book value and the consideration paid is recognized in the income statement.

EMPLOYEE BENEFITS

PENSIONS

The bank treats its pension obligations as a defined-contribution plan, because its pension scheme has been placed with an industry-wide pension fund that does not segregate into individual company pension plans or separate accounts. The industry-wide pension fund is unable to supply information necessary to calculate an adequate pension provision. The employer's share of the pension contribution is recognized in the income statement in the year to which the contribution relates. Any additional amounts required are also charged directly to the income statement.

OTHER EMPLOYEE BENEFITS

Separate provisions are formed for other employee benefits that qualify as defined-benefit plans. BNG Bank applies the corridor method in this respect, whereby actuarial differences within a specific bandwidth are not recorded. Actuarial differences that fall outside this bandwidth are added or charged to Staff costs in the income statement over the members' remaining working years. These other employee benefits relate to the continued granting of interest rate discounts on mortgage loans for the benefit of both active and retired employees. The level of the provision is determined on the basis of calculations made every two years by independent actuarial experts, using the Projected Unit Credit

Method (PUCM). The obligation associated with the mortgage interest rate discount is stated under Other liabilities. The costs relating to the employee benefits are recognized as staff costs in the income statement.

TAXATION

The tax amount is calculated on the basis of the statutory tax rates and the tax legislation in force. Deferred tax assets and liabilities are recognized as temporary differences between the carrying amounts and the tax bases of assets and liabilities. These deferred tax assets and liabilities are calculated on the basis of current tax rates relating to the periods in which they are expected to be realized. Differences in deferred tax assets and liabilities resulting from a change in tax rates are recognized in the income statement. Deferred tax assets are recognized only to the extent to which taxable profits are expected to be available in the near future to compensate for these temporary differences. 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. Tax assets and liabilities, both current and deferred, are netted if they concern the same tax authority and the same type of tax, and netting of these assets and liabilities is permitted by law. Group companies within the fiscal unit apply the determined tax rate.

EQUITY

The balance sheet is drawn up before profit appropriation. This means that the total net profit for the financial year is presented in equity. Equity includes a revaluation reserve in which the unrealized changes in fair value of Financial assets available-for-sale, net of tax, are recognized. This revaluation reserve also includes the changes in fair value net of tax recognized until 1 July 2008, relating to assets reclassified in 2008 and transferred from Financial assets available-for-sale to Amounts due from banks and Loans and advances. This part of the revaluation reserve is amortized over the remaining maturity of the reclassified assets and recognized under Interest result in the income statement. In the event of an actual sale, the cumulative revaluation results are recognized in the income statement (First In, First Out (FIFO)). As far as transactions involved in hedge accounting are concerned, the effective part of the fair value changes is recognized in the income statement during the period in which the transactions are involved in a hedge accounting relationship. Equity also includes a cash flow hedge reserve in which the unrealized changes in fair value of derivatives, net of tax, resulting from changes in the cross currency basis spread are recognized. The revaluation reserve for Financial assets available-for-sale and the cash flow hedge reserve are adjusted by a deferred tax asset or liability based on the expected tax settlement if the assets concerned were sold immediately on the balance sheet date.

INTEREST INCOME AND INTEREST EXPENSES

Interest income and Interest expenses for all interest-bearing instruments included in the balance sheet are calculated at amortized cost. The effective interest method is used to determine amortized cost. If a transaction valued at amortized cost is sold, the difference between the book value and the net proceeds of the sale is also recognized under either Interest income or Interest expenses.

RESULTS FROM ASSOCIATES AND JOINT VENTURES

This item includes the results from associates and joint ventures, valued in accordance with the equity method.

COMMISSION INCOME AND COMMISSION EXPENSES

In this item, the commission and fees paid or received are recognized in full in the income statement in the period in which the services were provided.

RESULT FINANCIAL TRANSACTIONS

The Result financial transactions includes the changes in market value of derivatives and of transactions designated as at fair value through the income statement, the market value adjustments for interest rate derivatives with clients due to the counterparty credit risk (Credit Valuation Adjustment), the effective market value adjustments due to the hedged interest rate risk of hedged items involved in a fair value hedge accounting relationship, as well as the ineffective part of the hedged risk in the case of cash flow hedge accounting. This item also includes gains and losses on the sale of Financial assets available-for-sale. These results comprise the release of related accumulated fair value adjustments from the Revaluation reserve and the difference between the book value and the net proceeds of the sale. In addition, this item includes the foreign currency results of financial transactions. Finally, the returns from the participating interests (equity instruments) included under Financial assets available-for-sale are recognized here.

OTHER RESULTS

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

DEPRECIATION

Please refer to the 'Property and equipment' section.

BANK LEVY

The Bank Tax Act ('Wet Bankenbelasting') took effect on 1 October 2012. Banks have to pay the bank levy in October of every year. In this month, the amount paid is charged to the result as a lump sum.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income presents the aggregate net result of the reporting period and the direct changes in equity, where applicable net of tax.

CASH FLOW STATEMENT

The cash flow statement has been drawn up in accordance with the indirect method. The cash flows are categorized as cash flows from operating, investing and financing activities. Cash and cash equivalents include cash at hand, available balances with banks and the 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 as well as purchases and sales of associates and joint ventures and property and equipment. Drawdowns and repayments of subordinated debts and debt securities, as well as dividend paid, are presented as financing activities.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the movement in items recognized as equity.

ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are prepared in accordance with the same accounting principles as the financial statements for 2011, with the exception of the application of new IFRS standards and interpretations. For purposes of comparison, the comparative figures have been restated where necessary. This is explained under the item concerned. ■

Notes to the consolidated financial statements

Amounts in millions of euros

1

CASH AND BALANCES WITH THE CENTRAL BANKS

This item comprises all legal tender, as well as cash balances and deposits with the Dutch central bank and the European Central Bank.

	31-12-2012	31-12-2011
Cash balances held with central banks	834	299
Overnight deposits with central banks	–	2,600
Short-term deposits with central banks	2,000	2,250
TOTAL	**2,834**	**5,149**

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2 AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These items include all receivables from banks, the loans and advances measured at amortized cost, as well as interest-bearing securities insofar as these are not traded on an active market.

	AMOUNTS DUE FROM BANKS		LOANS AND ADVANCES		TOTAL	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Short-term loans and current accounts	2	4	5,687	5,884	5,689	5,888
Reverse repos	2,235	2,797	501	502	2,736	3,299
Cash collateral	6,839	4,029	–	–	6,839	4,029
Long-term loans	28	35	81,201	80,059	81,229	80,094
Interest-bearing securities	151	147	674	1,009	825	1,156
Medium Term Notes	459	963	98	134	557	1,097
Reclassified available-for-sale investments	457	473	2,603	3,219	3,060	3,692
Incurred loss provision	–	–	−39	−32	−39	−32
TOTAL	**10,171**	**8,448**	**90,725**	**90,775**	**100,896**	**99,223**

	31-12-2012	31-12-2011
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	32	31
Additions during the financial year	8	1
Withdrawals during the financial year	−1	–
CLOSING BALANCE	**39**	**32**

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FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes assets specifically designated as at fair value with changes in fair value recognized in the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2012	31-12-2011
Derivatives	873	1,090
Loans and advances	973	911
Securities	1,630	1,321
TOTAL	3,476	3,322

The total redemption value of the loans and advances and securities at year-end 2012 is EUR 2,161 million (2011: EUR 2,175 million).

4

OTHER FINANCIAL ASSETS

This balance sheet item includes the fair value of derivatives involved in a hedge accounting relationship and the value adjustments concerning the effective part of the market value adjustments due to interest rate risks of assets hedged at a portfolio level.

	31-12-2012	31-12-2011
Derivatives involved in a portfolio hedge accounting relationship	4,651	3,886
Derivatives involved in a micro hedge accounting relationship	9.823	9,571
Market value adjustments of assets hedged at portfolio level	11,350	8,062
TOTAL	25,824	21,519

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FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes fixed and variable rate bonds and other interest-bearing securities and equity instruments, insofar as they are not recognized in Financial assets at fair value through the income statement.

	31-12-2012	31-12-2011
Public sector	5,507	3,743
Supranational organizations	812	439
Banks	1,430	1,190
Other financial institutions	659	790
Non-financial institutions	531	707
Investments in participating interests	79	50
TOTAL	9,018	6,919

Note 30, 'Risk Section', contains an explanation of the transfer of Financial assets available-for-sale without derecognition combined with total return swaps and repo transactions.

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6 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INTEREST		EQUITY METHOD VALUE	
	2012	2011	31-12-2012	31-12-2011
ASSOCIATES				
– Dataland BV, Rotterdam	30%	30%	0	0
– Data B Mailservice Holding BV, Leek	45%	45%	1	1
– NV Trustinstelling Hoevelaken, The Hague	40%	40%	0	0
– Transdev-BNG-Connexxion Holding BV, The Hague (TBCH)*	25%	25%	32	53
		SUBTOTAL	**33**	**54**
JOINT VENTURES				
– BNG Gebiedsontwikkeling BV, various	see note 40		56	54
		TOTAL	**89**	**108**

The decrease in the value of the associate TBCH is attributable to the impairment of the included goodwill of EUR 21 million due to the loss of important public transport concessions. For a description of the associates and joint ventures, please refer to note 40.

* This company holds 66.67% of the shares in Connexxion Holding NV.

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PROPERTY AND EQUIPMENT

The movement in this balance sheet item is as follows:

	PROPERTY		EQUIPMENT		TOTAL	
	2012	2011	2012	2011	2012	2011
HISTORICAL COST						
Value as at 1 January	47	47	12	12	59	59
Investments	–	–	0	–	0	–
Disposals	–	–	0	–	0	–
Value as at 31 December	47	47	12	12	59	59
DEPRECIATION						
Accumulated depreciation as at 1 January	30	29	10	9	40	38
Depreciation during the year	1	1	0	1	1	2
Accumulated depreciation as at 31 December	31	30	10	10	41	40
BOOK VALUE AS AT 31 DECEMBER	16	17	2	2	18	19

ESTIMATED USEFUL LIFE	
Buildings	33 1/3 years maximum
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

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OTHER ASSETS AND OTHER LIABILITIES

	31-12-2012	31-12-2011
OTHER ASSETS		
Deferred tax asset	–	97
Current tax asset	–	46
Other receivables	73	58
TOTAL OTHER ASSETS	**73**	**201**
OTHER LIABILITIES		
Current tax liability	111	–
Deferred tax liability	39	–
Employee benefits provision	3	2
Other commitments	82	153
TOTAL OTHER LIABILITIES	**235**	**155**

For the deferred tax asset and liability, please refer to note 9. The other receivables are primarily composed of amounts receivable from lending to clients. The other commitments are primarily composed of amounts payable related to derivatives and lending to clients. The employee benefits provision concerns a provision for an interest rate discount on mortgage loans to both active and retired employees. This provision has a long-term character. In addition, the employee benefits provision includes a provision for organizational changes.

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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 organizational changes are as follows:

	2012	2011
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	2	2
Movements in the provision	1	0
NET LIABILITY AS AT 31 DECEMBER	**3**	**2**

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9 TAXATION

On the initiative of the Dutch tax authorities, BNG Bank concluded two bilateral agreements ('vaststellingsovereenkomsten') regarding the corporate income tax returns for the 2005-2009 and 2010-2012 periods. BNG Bank evaluated these arrangements with the tax authorities, which resulted in the continuation of the arrangements and the conclusion of a bilateral agreement for the 2013-2014 period. The agreements apply to the BNG Bank fiscal unit. Pursuant to the agreements, 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 available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The fiscal result differs from the commercial result if, on balance, unrealized losses have arisen. If the revaluation reserve increases, the positive amount is added to the fiscal result 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:

	2012	2011
Profit before tax	460	339
Tax levied at the statutory tax rate	–115	–85
Tax adjustment from previous years	–	3
Other results exempt from taxation	–	–1
Participation exemption (impairment of goodwill Transdev-BNG-Connexxion Holding BV)	–5	–
Non-deductible costs (bank levy)	–8	–
EFFECTIVE TAX IN THE CONSOLIDATED INCOME STATEMENT	**–128**	**–83**
Nominal tax rate	25.0%	25.0%
Effective tax rate	27.8%	24.5%

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2012	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH NET RESULT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	3		−1	2
Financial assets available-for-sale	0	−64		−64
Cash flow hedge reserve	94	−71		23
TOTAL	**97**	**−135**	**−1**	**−39**

2011	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH NET RESULT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	3			3
Financial assets available-for-sale	−1	1		0
Net investment in a foreign entity	−13		13	–
Cash flow hedge reserve	0	94		94
TOTAL	**−11**	**95**	**13**	**97**

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10 AMOUNTS DUE TO BANKS, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

This includes debts to banks, funds entrusted and subordinated debts, insofar as they are not embodied in debt securities.

	31-12-2012	31-12-2011
Current accounts	2,127	2,487
Deposits from banks	3,589	4,379
Other deposits	2,345	3,317
Cash collateral	1,427	2,231
Private loans	7,662	5,119
Total return swaps	651	654
Repo transactions	561	226
Subordinated debts	33	93
TOTAL	**18,395**	**18,506**

11 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes liabilities specifically designated as at fair value with changes in fair value recognized in the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2012	31-12-2011
Derivatives	1,422	628
Debt securities	1,308	–
TOTAL	**2,730**	**628**

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The total redemption value of the debt securities at year-end 2012 is EUR 1,054 million (2011: EUR 0 million). These interest-bearing securities were previously recognized under Debt securities. The classification was adjusted in 2012.

12 OTHER FINANCIAL LIABILITIES

This balance sheet item concerns the fair value of derivatives involved in a hedge accounting relationship.

	31-12-2012	31-12-2011
Derivatives involved in a portfolio hedge accounting relationship	18,074	13,364
Derivatives involved in a micro hedge accounting relationship	618	1,003
TOTAL	18,692	14,367

13 DEBT SECURITIES

This includes bonds and other issued negotiable debt securities with either fixed or variable interest rates. Any unsold part of an issue is deducted from the issue in question.

	31-12-2012	31-12-2011
Debenture bonds and euro notes	89,308	88,897
Euro Commercial Paper	10,116	12,010
TOTAL	99,424	100,907

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14 EQUITY

Since BNG Bank has no minority interests after consolidation, the entire consolidated equity can be attributed to the shareholders. The items included in equity are explained below.

SHARE CAPITAL

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

SHARE PREMIUM RESERVE

There were no movements in 2012.

REVALUATION RESERVE

Equity contains a revaluation reserve in which the unrealized changes in fair value with respect to the Financial assets available-for-sale item are recognized. This value is adjusted for taxes. Upon sale of these assets, the associated cumulative result recognized in equity is transferred to the income statement.

CASH FLOW HEDGE RESERVE

The changes in the fair value of derivatives, resulting from changes in the cross currency basis spread, are recognized in the cash flow hedge reserve. This amount is adjusted for taxes. The cash flow hedge reserve concerns a large number of derivatives and hedged items with different maturities. The maximum remaining maturity runs up to 30 years, with the largest concentrations of remaining maturities varying between 1 and 10 years.

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OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves.

UNAPPROPRIATED PROFIT

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

	31-12-2012	31-12-2011
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	103	–271
Cash flow hedge reserve	–69	–282
Other reserves	2,241	2,049
Unappropriated profit	332	256
TOTAL	**2,752**	**1,897**

	2012	2011
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.49	1.15
PROPOSED DIVIDEND		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	76	57
TOTAL	**83**	**64**

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15 INTEREST INCOME

This includes the interest income from loans and advances, deposits and investments, as well as the results from financial instruments used to hedge interest rate and currency risks. In addition, other credit-related income received is included in this item.

	2012	2011
Financial assets at fair value through the income statement	70	70
Derivatives not involved in a hedge accounting relationship	171	58
Derivatives involved in a portfolio fair value hedge accounting relationship	−1,722	−1,511
Financial assets available-for-sale not involved in a hedge accounting relationship	21	39
Financial assets involved in a hedge accounting relationship	3,303	3,219
Financial assets at amortized cost	281	402
Other interest income	−9	50
TOTAL	**2,115**	**2,327**

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16 INTEREST EXPENSES

This includes the cost of borrowing and related transactions, as well as other interest-related charges.

	2012	2011
Financial liabilities at fair value through the income statement	52	–
Derivatives not involved in a hedge accounting relationship	−34	122
Derivatives involved in a hedge accounting relationship	−1,714	−1,466
Financial liabilities involved in a hedge accounting relationship	2,638	2,584
Financial liabilities at amortized cost	681	601
Other interest expenses	19	24
TOTAL	**1,642**	**1,865**

17 RESULTS FROM ASSOCIATES AND JOINT VENTURES

This item includes the results from associates and joint ventures.

	2012	2011
Results from associates	0	1
Results from joint ventures	−2	−1
TOTAL	**−2**	**0**

For a description of the associates and joint ventures, please refer to note 40.

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18

COMMISSION INCOME

This item includes income received or to be received from services provided to third parties.

	2012	2011
– Income from loans and credit facilities	14	16
– Income from payment services	9	9
– Income from fiduciary activities	8	8
TOTAL	31	33

19

COMMISSION EXPENSES

This item relates to fees paid or to be paid for services rendered by third parties in relation to loans and credit facilities.

20

RESULT FINANCIAL TRANSACTIONS

This item relates to realized and unrealized results from value adjustments of financial instruments measured at fair value, with changes in fair value recognized in the income statement. These are offset nearly entirely by movements in the market value of the relating derivatives. This item also includes the results from sales of financial assets available-for-sale. In addition, this item includes the changes in the market value adjustments due to the counterparty credit risk (Credit Valuation Adjustment) for interest rate swaps with clients. In 2012, the (very limited) foreign exchange results are included in the various elements of this item. In 2011, the foreign exchange results were recognized separately in item 21 Other results.

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	2012	2011
CHANGES IN MARKET VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS OF WHICH		
– Investments	31	−66
– Derivatives with clients	−11	–
– Structured loans	9	−48
	29	**−114**
RESULT FROM HEDGE ACCOUNTING		
– Financial assets involved in a fair value hedge accounting relationship	3,731	5,123
– Financial liabilities involved in a micro fair value hedge accounting relationship	−1,139	−2,169
– Derivatives involved in a hedge accounting relationship	−2,565	−2,943
	27	**11**
RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	11	12
OTHER MARKET VALUE ADJUSTMENTS	21	4
TOTAL	**88**	**−87**

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21 OTHER RESULTS

	2012	2011
THE OTHER RESULTS CONSIST OF		
– Income from consultancy services	4	4
TOTAL	4	4

22 STAFF COSTS

	2012	2011
THE STAFF COSTS CONSIST OF		
– Wages and salaries	25	23
– Pension costs	4	4
– Social security costs	2	2
– Addition to provisions	1	0
– Other staff costs	6	6
TOTAL	38	35

23 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, rent and maintenance costs of property and equipment, printing costs, training expenses and advertising expenses.

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24 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 7).

25 IMPAIRMENTS

The impairments in 2012 amount to EUR 32 million (2011: EUR 7 million). In 2012, this item (which in 2011 was called 'Addition to the incurred loss provision') is no longer presented as part of the income but as a separate item, after Total operating expenses and before Profit before tax. In 2011, item 21 Other results included an impairment of EUR 6 million with respect to Investments in associates and joint ventures. In 2012, this amount is recognized in the present item 25 Impairments. The comparative figures have been adjusted accordingly.

	2012	2011
THE IMPAIRMENTS CONSIST OF		
– Addition to the incurred loss provision for amounts due from banks and loans and advances	8	1
– Impairment of financial assets available-for-sale	–	–
– Impairment of associates and joint ventures	24	6
TOTAL	**32**	**7**

The incurred loss provision for loans and advances is included in the note on Amounts due from banks and Loans and advances (note 2). The impairment of Investments in associates and joint ventures of EUR 24 million consists of a EUR 21 million write-off of goodwill of the associate Transdev-BNG-Connexxion Holding BV (TBCH) due to the loss of important public transport concessions and EUR 3 million in impairments of the joint ventures of BNG Gebiedsontwikkeling.

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26 BANK LEVY

The Bank Tax Act came into effect on 1 October 2012. Banks have to pay a lump-sum bank levy on 1 October of every year, which for 2012 amounts to EUR 32 million. Since the Act took effect on 1 October 2012, no comparative figures can be reported. Based on the methodology and assumptions laid down in the Act, the bank levy owed for 2013 is expected to be EUR 33 million.

	2012
THE BANK LEVY OWED WAS CALCULATED AS FOLLOWED	BASIS 2011
Balance sheet total	136,460
Less: Regulatory capital (Basel II)	2,431
Less: Deposits covered by the deposit-guarantee scheme	45
Less: Liabilities relating to insurance activities	–
TAXABLE BASE	133,984
Less: Exemption amount	20,000
TAXABLE AMOUNT	113,984
Total sum of debts with a maturity of less than 1 year, according to the balance sheet	35,784
Total sum of all debts, according to the balance sheet	134,563
Bank levy on short-term debt component (0.044% of taxable amount)	13
Bank levy on long-term debt component (0.022% of taxable amount)	19
TOTAL	32

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27 FEES OF EXTERNAL AUDITORS

The fees paid to external auditors are included in Other administrative expenses. In conformity with Section 382a of Book 2, Part 9 of the Dutch Civil Code, a breakdown of the fees paid to the external auditors for audits and audit related and non-audit related services is given in note 27 to the company financial statements.

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28 BREAKDOWN OF BALANCE SHEET VALUE BY REMAINING CONTRACTUAL MATURITY

The following tables present the breakdown of the balance sheet value by remaining contractual maturity of all financial instruments, excluding derivatives.

	31-12-2012				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	2,834	–	–	–	2,834
Amounts due from banks	7,189	379	2,354	249	10,171
Financial assets at fair value through the income statement (excluding derivatives)	78	67	660	1,798	2,603
Financial assets available-for-sale	820	671	2,164	5,363	9,018
Loans and advances	8,470	11,171	36,142	34,942	90,725
TOTAL ASSETS	**19,391**	**12,288**	**41,320**	**42,352**	**115,351**
Amounts due to banks	4,033	1,089	1,101	–	6,223
Financial liabilities at fair value through the income statement (excluding derivatives)	54	301	301	652	1,308
Debt securities	10,285	17,671	49,097	22,371	99,424
Funds entrusted	4,121	842	1,983	5,193	12,139
Subordinated debts	1	1	8	23	33
TOTAL LIABILITIES	**18,494**	**19,904**	**52,490**	**28,239**	**119,127**

	31-12-2011				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	5,149	–	–	–	5,149
Amounts due from banks	4,714	791	2,570	373	8,448
Financial assets at fair value through the income statement (excluding derivatives)	34	61	656	1,481	2,232
Financial assets available-for-sale	124	304	2,944	3,547	6,919
Loans and advances	8,610	11,280	37,877	33,008	90,775
TOTAL ASSETS	**18,631**	**12,436**	**44,047**	**38,409**	**113,523**
Amounts due to banks	4,869	849	1,751	–	7,469
Debt securities	12,257	13,435	52,344	22,871	100,907
Funds entrusted	5,426	792	978	3,748	10,944
Subordinated debts	1	3	13	76	93
TOTAL LIABILITIES	**22,553**	**15,079**	**55,086**	**26,695**	**119,413**

29 RECLASSIFICATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

The effective interest rate of these reclassified assets, from the moment of reclassification, has a weighted average of 5.1% and ranges from 2.8% to 6.3%. In light of the fact that the assets have not been impaired, the calculation of the effective interest rate is based on the original cash flows.

BALANCE SHEET VALUE AS AT 31-12-2012	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	9,018	11,870	−2,852
Amounts due from banks	10,171	9,714	457
Loans and advances	90,725	88,122	2,603
Equity	2,752	2,545	207
– of which revaluation reserve	103	−104	207

BALANCE SHEET VALUE AS AT 31-12-2011	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	6,919	10,321	−3,402
Amounts due from banks	8,448	7,975	473
Loans and advances	90,775	87,556	3,219
Equity	1,897	1,607	290
– of which revaluation reserve	−271	−561	290

	31-12-2012		31-12-2011	
	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION
RECLASSIFIED ASSETS				
Balance sheet value	3,060	2,852	3,692	3,402
Fair value	2,852	2,852	3,402	3,402
Unrealized market value movement in equity	−134	−342	−158	−448
Unrealized market value movement transferred to equity	24	106	24	−86

Risk Section

30 RISK SECTION

GENERAL

The process of accepting and controlling risks is inherent to the day-to-day operations of any bank. In order to conduct lending operations, a bank will have to accept a certain amount of credit, market, liquidity and operational risk. Although individual risks, such as market risks, can be offset, this offsetting often leads to other risks. Where market risk is offset, this may entail a risk from financial counterparties.

The bank's risk management strategy is aimed at ensuring a reasonable return on equity for its investors while maintaining excellent creditworthiness. The bank's procedures for assessing and controlling its risks are in line with the classifications specified in the regulations known as Basel II and Basel III and in European regulations based on Basel II and Basel III.

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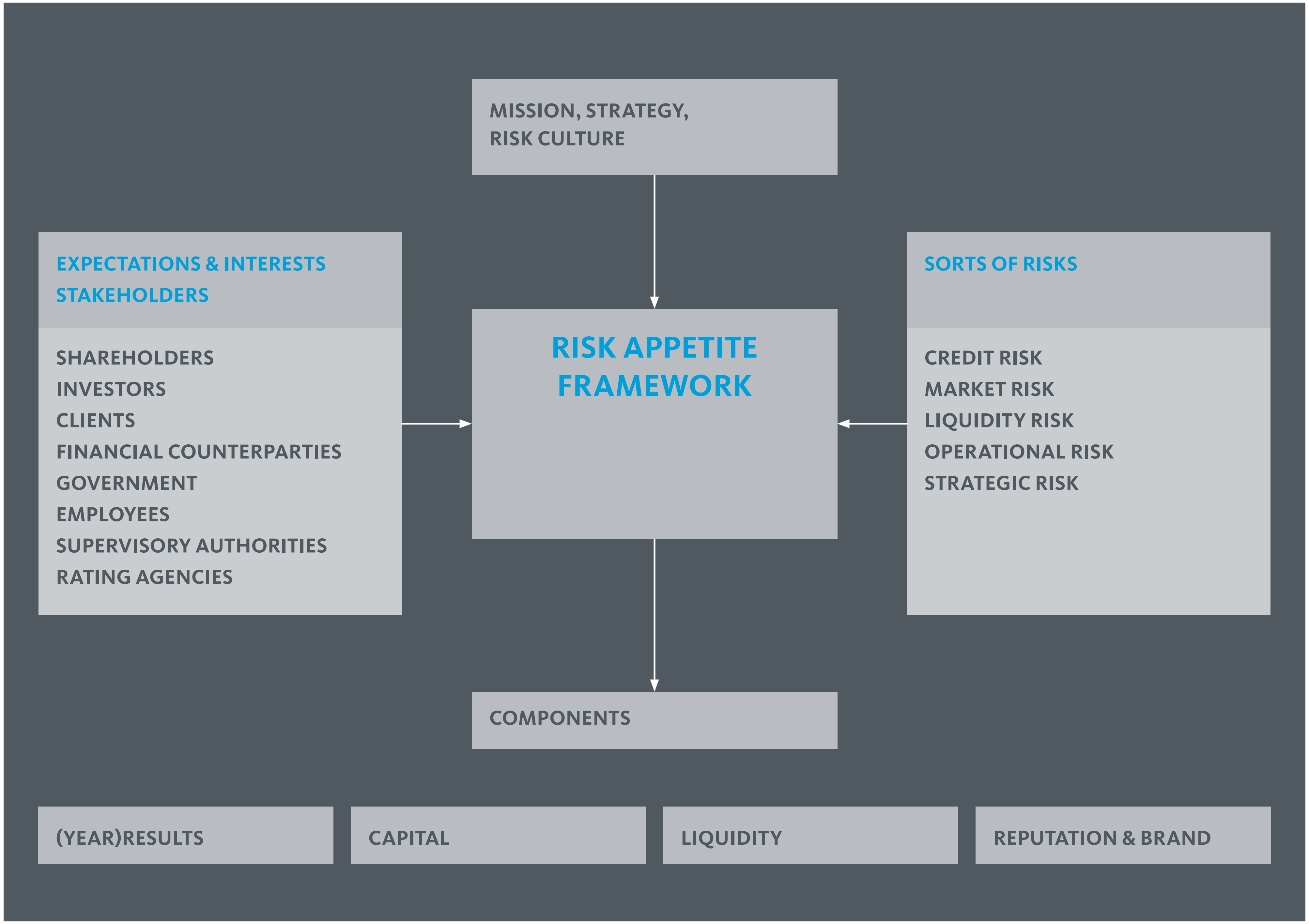
The bank's willingness to accept risks has been laid down in a risk appetite statement, which is annually updated and adopted by the Supervisory Board. The risk appetite has been broken down according to risk acceptance per type of risk. For each risk category, a policy framework has been drawn up which has been translated into limits, procedures and different kinds of indicators and reference figures.



Risk management is based on a system of reports aimed primarily at internal risk management. Where useful and possible, this system is linked up with the external reporting requirement. BNG Bank applies the 'Standardized Approach' in reporting credit risk to the central bank and the 'Basic Indicator Approach' in reporting operational risk. In addition, the bank ensures that the reports meet increasingly strict requirements on aspects such as capital (ICAAP) and liquidity (ILAAP).

DEVELOPMENTS IN 2012

FINANCIAL MARKETS

Turmoil in the financial markets has been the rule rather than the exception in recent years. The euro crisis returned in full force in the summer of 2011 and persisted in 2012. The problems in the Southern European countries sent interest rates in the Northern European countries plummeting. Markets remained disrupted and interbank confidence was still limited at year-end 2012. Nevertheless, the bank found it relatively easy throughout the year to obtain long-term funding on the capital market, albeit at spreads which are still higher than before the crisis. With regard to short-term funding, BNG Bank continued to be regarded as a safe haven, which meant that funds could be attracted on highly favorable terms.

The markets in which BNG Bank operates are disrupted as well. There are only a limited number of credit providers for large parts of the public sector. On the one hand, this is due to the fact that regulations force many banks to give priority to increasing their capital buffers under already difficult market conditions. On the other hand, public sector lending has become less attractive because of the problems in the sector itself. Financial problems regularly made the headlines and sometimes developed into scandals. Thus, a number of housing associations ran into serious financial difficulty because of problems resulting from the use of derivatives. In order to limit further risks for housing associations, new rules were introduced at the end of 2012 which include a ban on using derivatives with a maturity of more than ten years.

Many banks are especially reluctant to provide long-term loans. This, though, is essential for BNG Bank's clients, who often have a long-term investment horizon (as in the case of housing developments by housing associations or new accommodation for hospitals). Thanks to its strong liquidity position the bank could continue serving its clients, although market conditions forced it to demand a higher credit and liquidity spread. Lending subject to solvency requirements was lower than in previous years. Government cutbacks and additional burdens caused a decline in public sector investments. The bank itself, in trying to control the concentration risk, was also more reluctant to assume new credit risks.

RISK APPETITE

The bank has prepared a risk appetite statement. This statement specifies the amount of risk the bank is willing to accept in order to achieve its objectives, based on the interests of the various stakeholders. The risk appetite is adopted each year by the Supervisory Board, and serves as a risk tolerance guideline for the various risk types and the associated control frameworks and limits. Following its introduction in 2011, the risk appetite statement was translated into individual risks and the way in which they are controlled. The framework of limits, indicators and reference figures was brought into line with this. In a few instances, a policy adjustment was made in order to align practical application with the risk appetite. Having thus elaborated the risk appetite statement, the bank fleshed out its periodic monitoring program. For each key area, quarterly reports are issued on whether the bank remains within its risk appetite limits. In this way, the risk appetite is embedded in the organization while its practical applicability is increased. Changing circumstances as well as learning effects have resulted in adjustments to the risk appetite statement for 2013. As in 2011, a number of themed sessions were held in 2012 in which risk management and risk appetite was considered and discussed. The departments indicated in their annual plans how they will ensure compliance with the risk appetite in 2013 from their respective areas of responsibility. In addition, the risk appetite is addressed in the 'in control' statements drawn up by the directorates and departments. In 2012, the bank remained nearly entirely within its risk appetite limits.

A conspicuous deviation from the risk appetite concerns the bank's return, which was higher than is considered appropriate for its risk profile. This is primarily attributable to BNG Bank's reputation as a safe haven in the money market, which proved to be beneficial this year as well. In addition, the return is subject to the effects of market fluctuations resulting from the IFRS accounting rules. In 2012, these effects were highly positive. Another deviation from the risk appetite relates to the extent of the exposures subject to solvency requirements at individual clients. The limits provided by the 2013 risk appetite statement are stricter than before. With regard to existing exposures, the higher amount of exposures is tolerated for now. However, future lending will comply with the new standard ensuing from the risk appetite.

A number of elements regarding reputation and brand were added to the 2013 risk appetite statement. These elements are related to the increasing complexity of market environment and regulations, which pose a considerable challenge to a small player (in terms of size) such as BNG Bank. Quantification and monitoring of less tangible factors of this kind are far from easy. The possibilities in this respect will be further examined in 2013.

BASEL III

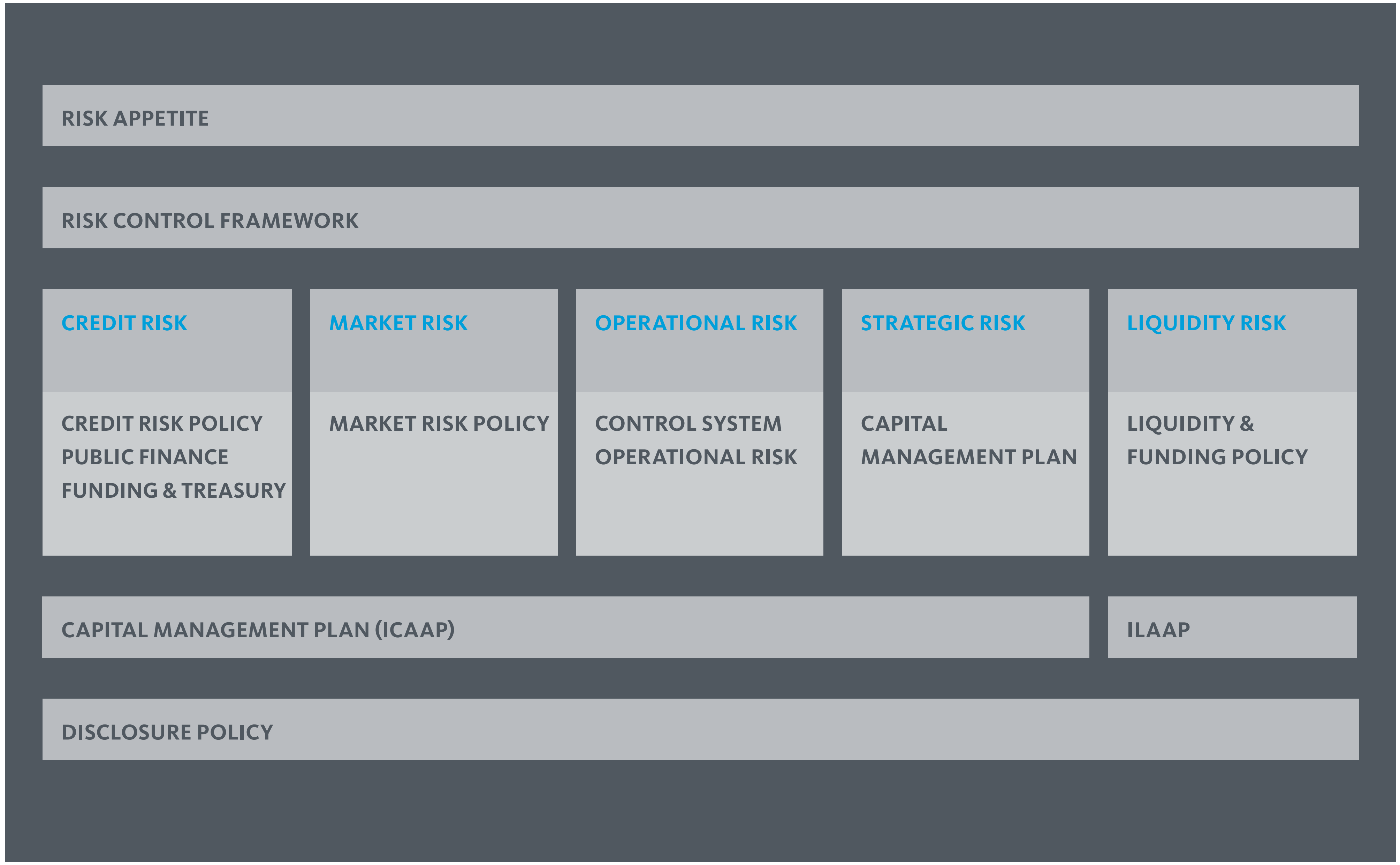
The regulations known as Basel III and their elaboration into European regulations (CRD IV) will be introduced in various stages between now and 2019. The elements most important to BNG Bank are increased capital requirements – in particular the introduction of the so-called leverage ratio - and increased liquidity requirements. Other measures, such as central derivatives clearing (EMIR) and the bank levy introduced separately from the Basel regulations also have an impact on the bank's business model. Not only do all these factors intrinsically entail higher costs, their implementation is expensive as well. The monitoring procedures introduced by the regulator require a great deal of manpower, partly because it is undesirable to set up systems based on regulations that are not yet definitive.

The leverage ratio is relatively disadvantageous for BNG Bank on account of its large volume of solvency-free lending. The definitive leverage ratio – and relevant capital reserve procedures – will be determined at a later date. The value of 3% provisionally imposed forced the bank to start increasing its capital already in 2012. In order to achieve this, the dividend policy was adjusted by reducing the pay-out percentage from 50% to 25% of the net profit. In addition, consideration is given to the possibility of attracting a limited amount of hybrid capital in due course.

In terms of the risk-weighted solvency ratio, BNG Bank complies with all requirements due to the bank's internal policy of maintaining a minimum core capital ratio of 18%. Other banks have seen their risk-weighted solvency ratios increase rapidly, in response to market expectations in combination with Basel III and additional requirements from national and international regulators. In order to retain its advantageous funding position, BNG Bank will strive to maintain a solvency ratio that is relatively high in comparison with other banks and will therefore exceed the aforesaid 18%. With regard to liquidity two new ratios have been introduced: the Liquidity Coverage Ratio and the Net Stable Funding Ratio. BNG Bank already complies with all known minimum requirements for these ratios, which are expected to be introduced over the coming years.

ORGANIZATIONAL RISK MANAGEMENT STRUCTURE

The bank has two special management committees made up of Executive Board members and the responsible managing directors. Each committee focuses on a specific risk area. The Asset & Liability Committee focuses on market and liquidity risk. The policies on credit risk and operational risk are dealt with in the Management Board. The members of the Executive Board have the voting power in both meetings.


RISK APPETITE
RISK CONTROL FRAMEWORK
CREDIT RISK
CREDIT RISK POLICY
PUBLIC FINANCE
FUNDING & TREASURY
MARKET RISK
MARKET RISK POLICY
OPERATIONAL RISK
CONTROL SYSTEM
OPERATIONAL RISK
STRATEGIC RISK
CAPITAL
MANAGEMENT PLAN
LIQUIDITY RISK
LIQUIDITY &
FUNDING POLICY
CAPITAL MANAGEMENT PLAN (ICAAP)
ILAAP
DISCLOSURE POLICY

The bank maintains a risk control framework that distinguishes between various risk types, the relevant responsibilities and the various policy documents that describe the acceptance and management of these risks. This framework also includes the Capital Management Policy. This is regarded as an overarching policy covering all risk types – regardless of whether or not they require a capital reserve – and is dealt with by the Management Board, since that is where all key decisions affecting the allocation of capital are made.

Decisions regarding the actual acceptance of credit risks in the form of individual credits or other loans are made by three independent committees: the Credit Committee, the Financial Counterparties Committee and the Investment Committee. All three are chaired by members of the Executive Board. The Executive Board is directly responsible for controlling strategic risks.

The Risk Control department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of market risk, liquidity risk, operational risk and other risks. In addition, the Credit Risk Assessment department draws up policy proposals with respect to credit risk, while as part of the lending process it also provides independent assessments and advice on risks relating to credit and review proposals for customers and financial counterparties. The department is represented in the bank's Credit Committee, the Financial Counterparties Committee and the Investment Committee. The bank's credit watch activities – namely the supervision, management and processing of problematic financing arrangements – are also conducted by this department. The Internal Audit Department (IAD) periodically conducts operational audits in order to evaluate the structure and performance of the bank's risk management systems and assess compliance with the applicable legislation. The IAD functions as an independent entity within the bank. The bank also has an independent Compliance Officer charged with monitoring compliance with all relevant legislation. The duties, position and authorities of this compliance function are recorded in the BNG Compliance Regulations. The Executive Board periodically discusses the structure and performance of the bank's internal risk management and control systems with the Supervisory Board and the Audit & Risk Committee.

CREDIT RISK

DEFINITIONS

Credit risk is defined as the risk that a counterparty will fail to meet its (financial) obligations and includes counterparty risk, settlement risk and concentration risk.

- Counterparty risk: the risk that a party will default on payments resulting from a financial transaction at the moment the payments are due to be effected.
- Settlement risk: the risk that a party will fail to meet the terms and conditions of a contract (or group of contracts) on the specified settlement date.
- Concentration risk: the extent to which a bank's exposure is spread over its total number of debtors and the degree of difference between these debtors in terms of their characteristics.

GENERAL

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

- The Executive Board determines the relevant lending parameters.
- The Credit Committee decides on all loans and advances to clients subject to solvency requirements. In some cases this authority is delegated.
- The Financial Counterparties Committee specifies limits for transactions with financial institutions.
- The Investment Committee decides on proposals for investment in interest-bearing securities.

The Credit Risk Assessment department (for individual transactions subject to solvency requirements) and Risk Control department (at portfolio level) are responsible for assessing, quantifying and reporting on the credit risk involved. In the organization, these departments operate independently from the Public Finance and Treasury directorates, which are responsible for accepting the credit risks.

COUNTERPARTY RISK

The bank is exposed to credit risk in relation to its debtors, which are divided into statutory clients and financial counterparties.

STATUTORY CLIENTS

The bank's Articles of Association limit the issue of loans and advances to customers subject to some form of government involvement. As a result, the vast majority of the credit portfolio is comprised of loans issued to and/or guaranteed by the government. Due to the virtual lack of credit risk in this portfolio, the process of assessing and lending credit to these customers is structured on a straight-through basis. All other lending is preceded by a creditworthiness analysis, which serves to determine the risk and allocate the relevant internal rating. Based on this rating and on the size of the credit, the bank determines the scope of the decision-making process and the maximum acceptable credit risk. BNG Bank also applies a review process for all loans and advances subject to solvency requirements. Depending on the client's internal rating and the nature of the loan, this procedure will involve at least one creditworthiness analysis and updating of the internal rating per annum.

FINANCIAL COUNTERPARTIES

A creditworthiness analysis will be conducted for each financial counterparty in order to determine the relevant limit. The bank only enters into transactions with financial counterparties that have been rated by an external agency, and also determines an internal rating for each of these parties. A limit is then set on the basis of the various available data. Where possible, BNG Bank applies netting agreements to minimize credit risk from financial counterparties. The bank has also entered into bilateral collateral agreements with nearly all its financial counterparties.

CREDIT MODELS

Since 2010, BNG Bank has assessed creditworthiness using rating models developed in-house. These models have improved the quality of the internal credit assessment process, because these are now made on the basis of more objectively perceptible criteria.

All eligible parties were rated in 2012. All the models have been validated by an external party and found to be suitable for the purposes they serve. However, recommendations were made with regard to documentation and operation. A number of these recommendations were followed up in 2012, while the remaining recommendations will be implemented in 2013. Both the models and the procedures are monitored at internal level, which results in additional improvements to the models.

An additional objective of the models was the potential option to report solvency to the regulator on the basis of the 'Foundation Internal Rating Based' (FIRB) approach under the Basel II regulations. However, banks' internal models have been regarded in a different light since the crisis and, partly in view of the nature of the models (expert models) and the bank's portfolio (low default), as well as the considerable costs entailed by a request for application, such a changeover is currently not being considered.

AREA DEVELOPMENT PROJECT INVESTMENTS

BNG Bank incidentally invests modest amounts of risk-bearing capital in area development projects. This allows the bank to participate in such projects in its capacity as lender. In view of market conditions in the sector, these efforts were suspended in mid-2010. The bank has invested little to no capital in such projects since. A number of these projects are not realized according to plan. However, the resulting effects on the bank's income statement remained limited in 2012: EUR 3 million in risk-bearing capital had to be recognized as an impairment loss.

SETTLEMENT RISK

Exposure to settlement risks is mainly apparent in transactions with financial counterparties. In addition to hedging counterparty risk, the aforementioned netting and collateral agreements serve to limit settlement risks resulting from the mutual offsetting of payments. Control measures throughout the operational process serve to further mitigate the settlement risk.

CONCENTRATION RISK

BNG Bank's lending activities are subject to a degree of concentration risk. This is inherent to the bank's mission: financing the Dutch public sector. A considerable portion of the bank's exposure is also susceptible to the fluctuating value of public sector real estate. These risks are generally mitigated by government guarantees on credits and by the WSW (Social Housing sector) and WfZ (Healthcare sector) guarantee funds. Loans and advances subject to solvency requirements are governed by sector-specific lending policies and limits designed to limit concentration risks.

The bank's financial counterparties also represent a concentration risk. To mitigate market risks, interest rate and currency swaps are entered into with these counterparties. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it does business. These restrict the number of available parties, which is why a large number of transactions are conducted with these parties. Daily collateral exchange helps to mitigate the credit risk from these parties in terms of market value. However, some kind of performance risk remains if all contracts with a problem party must be replaced by contracts with other parties. This may entail significant costs.

Concentration risk also comprises the country risk. BNG Bank exclusively grants credit to counterparties in countries within the EU and has set an overall limit on long-term lending in foreign countries of 15% of its balance sheet total. The bank also applies limits for individual countries which are partly determined on the basis of external country ratings. In many cases, such foreign credit lending is directly or indirectly guaranteed by the relevant governments. The deteriorating creditworthiness of euro zone countries has a negative impact on country risk. This has resulted in a downward adjustment of internal limits. The bank is gradually reducing its exposure to country risk. This is mainly done by ensuring that existing exposures are not replaced by new ones once they have expired. At the end of 2012, the bank's foreign exposure (expressed in balance sheet value) totaled EUR 17.7 billion (2011: EUR 14.6 billion), of which EUR 11.1 billion consisted of long-term credits. This represents 7.8% of the balance sheet total (2011: 7.4%).

CREDIT RISK DEVELOPMENTS

In 2012, the public sector was regularly startled by institutions getting into difficulty. None were more striking than the imminent liquidity deficits faced by a number of housing associations on account of their having to meet collateral obligations in relation to derivatives. The safety net of the housing association sector (the WSW, the CFV and associations providing mutual assistance) proved to be effective in these cases; the backstop by the State and the municipal authorities did not come into force. BNG Bank did not sustain any credit losses as a result of clients' derivatives positions. The bank keeps a close eye on the developments in the European debt crisis. This is not only because of their influence on the Dutch public sector, but also because of the risk that in certain scenarios the exemption from solvency requirements of some European countries might be called into question in the future, which may result in a higher solvency weighting.

INTEREST-BEARING SECURITIES (IBS) PORTFOLIO

BNG Bank maintains an IBS portfolio for liquidity management purposes. This portfolio consists of high-quality bonds, most of which are accepted as collateral by the central bank. The portfolio also serves to generate additional return on equity. The table below features an overview of the relevant assets on the basis of outstanding principal amounts, categorized by type and rating level. The assets are recognized in the balance sheet items Amounts due from banks, Loans and advances, Financial assets available-for-sale and Financial assets at fair value through the income statement.

All transactions reported under 'IBS with government guarantee' were issued to local government agencies or public organizations. These loans are classified on the basis of 'ultimate rating', which means that they are featured under the guarantor's rating.

	31-12-2012					
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
DOMESTIC						
Government bonds	1,000					1,000
IBS with government guarantee	88					88
IBS with National Mortgage Guarantee	677	244	338			1,259
Covered bonds	385	75				460
Bouwfonds			450			450
Medium Term Notes			77			77
ABS/MBS	427	12	4			443
Miscellaneous		151	171			322
	2,577	482	1,040	–	–	4,099
FOREIGN						
Government bonds	1,543	355	843	50		2,791
Supranational	417	306				723
European Investment Bank	535					535
IBS with government guarantee	1,088	71	146	24	209	1,538
Covered Bonds	125	41	477	657		1,300
Medium Term Notes		62			60	122
ABS/MBS	32	227	785	395	109	1,548
Miscellaneous		253	123	167		543
	3,740	1,315	2,374	1,293	378	9,100
TOTAL	6,317	1,797	3,414	1,293	378	13,199

	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
						31-12-2011
DOMESTIC						
Government bonds	425					425
IBS with government guarantee	91					91
IBS with National Mortgage Guarantee	1,118	56	368			1,542
Covered Bonds	360	75				435
Bouwfonds		687	250			937
Medium Term Notes			140			140
ABS/MBS	781	24	6			811
Miscellaneous		147	296			443
	2,775	**989**	**1,060**	**–**	**–**	**4,824**
FOREIGN						
Government bonds	1,205	381	838			2,424
Supranational	425					425
IBS with government guarantee	1,038	216	74	32	137	1,497
Covered Bonds	388	688	324	25		1,425
Medium Term Notes	60			80		140
ABS/MBS	597	681	403	115	63	1,859
Miscellaneous	342	252	120	167		881
	4,055	**2,218**	**1,759**	**419**	**200**	**8,651**
TOTAL	**6,830**	**3,207**	**2,819**	**419**	**200**	**13,475**

LONG-TERM EXPOSURES TO GIIPS COUNTRIES

BNG Bank has long-term exposures to the so-called GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). BNG Bank will not invest in new long-term exposures (with underlying assets) in these countries. Short-term exposures (to banks) are possible for liquidity management purposes. The next two tables provide information on the long-term exposures on the basis of outstanding principal amounts, broken down by country of origin and rating level. Unlike the overview of interest-bearing securities, this also involves long-term private lending.

The long-term exposures to GIIPS countries consist of government bonds, covered bonds, Medium Term Notes, loans and advances to statutory clients and investments in the lowest-risk tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS). The fair value of the total exposures currently outstanding in GIIPS countries as at year-end 2012 rose by EUR 63 million to EUR 3,752 million compared with the end of 2011. The increase concerns positive market value adjustments, mainly on Spanish and Portuguese exposures.

The Irish exposure consists of the securitization of claims in Germany, Spain and Portugal. All exposures reported under the items Loans and advances and IBS with government guarantee were issued to local government agencies or public organizations. These exposures are classified on the basis of 'ultimate rating', which means that they are featured under the guarantor's rating. The government guarantees concern guarantees provided by either national or local governments.

BNG Bank closely monitors developments in the financially weaker countries. As before, many debtor and IBS ratings were lowered in 2012, partly because the ratings of their respective home countries were lowered. The result is a clear shift towards lower rating levels. The economic situation in Portugal and Spain is particularly disquieting. The Portuguese government's credit and liquidity risk spreads make it almost impossible to attract new funding on the capital markets. Unlike Greece, however, Portugal has no plans to restructure its government debts. In early July 2012 a Portuguese borrower failed to perform its regular interest and repayment obligations. BNG Bank and the other banks involved entered into negotiations with the guarantor about the situation that had arisen. At the end of 2012, this resulted in the payment of all the outstanding receivables, including an additional repayment on the outstanding principal amount. Under the new arrangements, the remaining principal amount of EUR 11 million will be repaid over the coming three years. In Spain, a concessionary of two ring roads around Madrid went bankrupt in the fourth quarter of 2012. Together with the other banks involved, BNG Bank claimed payment of the outstanding receivables from the shareholders. If the shareholders are unable to meet their obligations, BNG Bank will eventually have a claim against the Spanish State. Expectations are that the bank will be paid all the amounts receivable within two years of the bankruptcy declaration. The 2011 and 2012 cash flows for all other foreign exposures were received in time and in full. As of yet, the bank has not had to form any provisions for future cash flows.

						31-12-2012
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL
IRELAND						
ABS/MBS		22	228	92	7	349
		22	228	92	7	349
ITALY						
Government bonds			843			843
ABS/MBS		78	88	74		240
IBS with government guarantee				24	28	52
		78	931	98	28	1,135

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	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
						31-12-2012
PORTUGAL						
ABS/MBS			74			74
Loans and advances					132	132
Covered bonds				25		25
IBS with government guarantee					134	134
			74	25	266	365
SPAIN						
Government bonds				50		50
ABS/MBS		115	395	229	102	841
Loans and advances				102	20	122
Covered bonds			477	632		1,109
IBS with government guarantee		2	21		46	69
Medium Term Notes					60	60
		117	893	1,013	228	2,251
TOTAL EXPOSURE GIIPS COUNTRIES		217	2,126	1,228	529	4,100

						31-12-2011
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
IRELAND						
ABS/MBS		254	80	46		380
		254	**80**	**46**		**380**
ITALY						
Government bonds			838			838
ABS/MBS	147	39	11	69		266
IBS with government guarantee			28	32		60
	147	**39**	**877**	**101**		**1,164**
PORTUGAL						
ABS/MBS			78			78
Loans and advances					184	184
Covered bonds				25		25
IBS with government guarantee					137	137
			78	**25**	**321**	**424**

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	31-12-2011					
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
SPAIN						
Government bonds		50				50
ABS/MBS	259	372	233		63	927
Loans and advances		56	50		9	115
Covered bonds	192	688	324			1,204
IBS with government guarantee	34	12	46			92
Medium Term Notes				80		80
	485	**1,178**	**653**	**80**	**72**	**2,468**
TOTAL EXPOSURE GIIPS COUNTRIES	**632**	**1,471**	**1,688**	**252**	**393**	**4,436**

CREDIT RISK IN FINANCIAL ASSETS

The following tables provide a quantitative overview of the credit risk at the end of 2012.

	31-12-2012	31-12-2011
	BALANCE SHEET VALUE	BALANCE SHEET VALUE
FINANCIAL ASSETS		
Amounts due from banks and Loans and advances	100,896	99,223
Financial assets at fair value through the income statement*	3,476	3,322
Financial assets available-for-sale	9,018	6,919
Other financial assets*	25,824	21,519
	139,214	**130,983**
* Of which derivatives and market value adjustments from hedge accounting	−26,697	−22,609
TOTAL	**112,517**	**108,374**

	31-12-2012		31-12-2011	
	BALANCE SHEET VALUE	IN PERCENT	BALANCE SHEET VALUE	IN PERCENT
BREAKDOWN BY MARKET SEGMENT				
Public sector	35,872	32%	33,128	31%
Social housing	42,812	38%	42,920	40%
Energy, Water and Telecom	2,054	2%	2,083	2%
Health care	7,956	7%	7,747	7%
Transport, Logistics and the Environment	1,921	2%	1,914	2%
Education	1,152	1%	1,144	1%
Other clients	2,357	2%	2,265	2%
SUBTOTAL	**94,124**	**84%**	**91,201**	**85%**
Credit institutions	11,310	10%	8,978	8%
Other financial institutions	6,165	5%	7,683	7%
Other	918	1%	512	0%
TOTAL	**112,517**	**100%**	**108,374**	**100%**

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Continuation of previous page	31-12-2012		31-12-2011	
	BALANCE SHEET VALUE	IN PERCENT	BALANCE SHEET VALUE	IN PERCENT
OF WHICH SUBJECT TO SOLVENCY REQUIREMENTS				
Public sector	522	3%	682	3%
Social housing	1,023	6%	1,195	6%
Energy, Water and Telecom	2,010	11%	2,033	10%
Health care	2,319	13%	2,292	11%
Transport, Logistics and the Environment	880	5%	948	4%
Education	1,022	5%	1,002	5%
Other clients	1,631	9%	1,586	8%
SUBTOTAL	**9,407**	**52%**	**9,738**	**47%**
Credit institutions	3,876	21%	4,947	24%
Other financial institutions	4,982	27%	6,016	29%
Other	82	0%	58	0%
TOTAL	**18,347**	**100%**	**20,759**	**100%**

The majority of risks are concentrated in the market segments with loans subject to solvency requirements. Almost all loans subject to solvency requirements have been guaranteed by counterparties in the form of collaterals. Loans to credit institutions subject to solvency requirements are limited to a select number of banks and primarily arise from collateral requirements. The loans subject to solvency requirements also include 11 (2011: 18) counterparties whose individual exposures represent more than 10% of the bank's BIS qualifying capital.

MAXIMUM CREDIT RISK

The following table provides insight into the maximum credit risk of all financial assets – disregarding the fair value of all collaterals – in the event that the counterparties were to default on their obligations. These financial assets have been entered at balance sheet value, with the exception of contingent liabilities and irrevocable facilities, which have been entered at nominal value.

	31-12-2012	31-12-2011
Cash and balances with the central banks	2,834	5,149
Derivatives	15,346	14,547
Amounts due from banks and Loans and advances	100,896	99,223
Financial assets at fair value through the income statement (excluding derivatives)	2,603	2,232
Financial assets available-for-sale	9,018	6,919
Contingent liabilities	289	482
Irrevocable facilities	7,370	8,412
TOTAL	**138,356**	**136,964**

The derivatives almost exclusively consist of interest rate swaps and cross currency interest rate swaps. The bank only enters into such contracts with financial counterparties that have a high level of creditworthiness. Exposure to credit risk has also been limited by means of netting and collateral agreements.

TRANSFER OF FINANCIAL ASSETS WITHOUT DERECOGNITION

The following table shows the balance sheet values of the financial assets that were transferred but not derecognized as well as that of the related financial liabilities. The counterparty to the financial liabilities has no right of recourse in respect of the relevant financial assets.

ASSETS		2012 INTEREST-BEARING SECURITIES SOLD IN TOTAL RETURN SWAPS	2012 INTEREST-BEARING SECURITIES SOLD IN REPO TRANSACTIONS
Financial assets available-for-sale	NOTE 5	671	567
TOTAL		671	567

LIABILITIES		2012 TOTAL RETURN SWAPS	2012 REPURCHASE TRANSACTIONS
Amounts due to banks	NOTE 10	651	561
TOTAL		651	561

At the end of 2012, the bank sold EUR 671 million (2011: EUR 660 million) in bonds included in the Financial assets available-for-sale portfolio, while simultaneously entering into total return swaps worth EUR 651 million (2011: EUR 654 million) through which it retained entitlement to the cash flows and remained exposed to the risks. For this reason, these bonds were not derecognized. As in 2011, no new transactions were concluded in 2012. As at 31 December 2012, the balance sheet value includes EUR 567 million (2011: EUR 229 million) in interest-bearing securities that were sold in repurchase (repo) transactions amounting to EUR 561 million (2011: EUR 226 million). Both the total return swaps and the repo transactions are included in note 10 Amounts due to banks.

BNG Bank has no financial assets in its portfolio that were transferred and derecognized, in which it has a continuing involvement.

CREDIT EQUIVALENTS OF DERIVATIVES ON THE ASSET SIDE OF THE BALANCE SHEET

The credit risk from derivatives is relatively small despite the fact that the principal amounts totaled EUR 229 billion at year-end 2012 (2011: EUR 224 billion). With the exception of currency derivatives, these contractual principal amounts merely serve as accounting quantities and do not reflect the size of cash flows or the risk associated with the derivatives. The credit equivalent of the derivatives portfolio serves as a more accurate indicator in this regard. The credit risk is expressed in terms of credit equivalents, in accordance with central bank guidelines. The credit equivalent consists of the market value plus an add-on for future credit risk. Contracts with a net positive value – where contractual default by the counterparty would cause the bank to lose revenue – are relevant in this regard. The principal amounts are also multiplied by percentages based on the specific product and its maturity period. The sum of these two values (credit equivalent) provides an indication of the credit risk. At year-end 2012 the risk-weighted credit equivalent of the derivatives portfolio totaled EUR 1,067 million (2011: EUR 1,052 million).

	31-12-2012	31-12-2011
CREDIT EQUIVALENTS		
Interest contracts	1,568	1,600
Currency contracts	1,474	2,726
TOTAL	**3,042**	**4,326**
Less: Cash collateral received	1,260	2,086
TOTAL AFTER DEDUCTION OF CASH COLLATERAL	**1,782**	**2,240**

These figures reflect netting of the positive and negative market values of contracts per counterparty.

MATURITY ANALYSIS OF PAST DUE ASSETS WITHOUT INDIVIDUAL IMPAIRMENT

	31-12-2012	31-12-2011
Less than 31 days	1	2
31 to 60 days	0	2
61 to 90 days	0	0
Over 90 days	27	3
TOTAL	**28**	**7**

The past due assets relate almost entirely to the Loans and advances item. The increase in past due assets over 90 days is caused by outstanding receivables from two counterparties that have gone bankrupt. BNG Bank is currently enforcing the guarantees and expects that all the receivables will be repaid.

FINANCIAL INSTRUMENTS BY CATEGORY	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	TOTAL 31-12-2012
Cash and balances with the central banks						2,834	2,834
Amounts due from banks					946	9,225	10,171
Financial assets at fair value through the income statement	2,603	873					3,476
Other financial assets			14,474		11,350		25,824
Financial assets available-for-sale				1,006	8,012		9,018
Loans and advances					72,280	18,445	90,725
TOTAL ASSETS	**2,603**	**873**	**14,474**	**1,006**	**92,588**	**30,504**	**142,048**

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Continuation of previous page							31-12-2012
	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	TOTAL
Amounts due to banks						6,223	6,223
Financial liabilities at fair value through the income statement	1,308	1,422					2,730
Other financial liabilities			18,692				18,692
Debt securities					79,104	20,320	99,424
Funds entrusted					5,748	6,391	12,139
Subordinated debts						33	33
TOTAL LIABILITIES	1,308	1,422	18,692	–	84,852	32,967	139,241

FINANCIAL INSTRUMENTS BY CATEGORY	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	TOTAL 31-12-2011
Cash and balances with the central banks						5,149	5,149
Amounts due from banks					1,450	6,998	8,448
Financial assets at fair value through the income statement	2,232	1,090					3,322
Other financial assets			13,457		8,062		21,519
Financial assets available-for-sale				1,190	5,729		6,919
Loans and advances					70,624	20,151	90,775
TOTAL ASSETS	**2,232**	**1,090**	**13,457**	**1,190**	**85,865**	**32,298**	**136,132**

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Continuation of previous page							31-12-2011
	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN HEDGE ACCOUNTING	FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	TOTAL
Amounts due to banks						7,469	7,469
Financial liabilities at fair value through the income statement		628					628
Other financial liabilities			14,367				14,367
Debt securities					79,553	21,354	100,907
Funds entrusted					3,380	7,564	10,944
Subordinated debts						93	93
TOTAL LIABILITIES	**–**	**628**	**14,367**	**–**	**82,933**	**36,480**	**134,408**

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

The market values of financial assets and financial liabilities at fair value through the income statement include a credit risk spread. Changes in value due to credit risk fluctuations are derived from changes in these spreads. The risk profiles of individual clients and financial instruments are periodically assessed. If necessary, the credit risk spread will be adjusted.

Changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit risk spreads totaled EUR 195 million negative accumulated (2011: EUR 241 million negative) and EUR 46 million positive over 2012 (2011: EUR 119 million negative). An increase in the credit risk spread of +20 basis points as at year-end 2012 will cause the market value of the interest-bearing securities within the financial assets at fair value through the income statement to fall by approximately EUR 54 million.

Changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit risk spreads in recent years totaled approximately nil (accumulated). An increase in the credit risk spread by +20 basis points as at year-end 2012 will cause the market value of the debt securities within the financial liabilities at fair value through the income statement to rise by approximately EUR 12 million.

MARKET RISK

DEFINITIONS

Market risk is defined as existing or future threats to the institution's capital as a result of market price fluctuations. There are various forms of market risk. BNG Bank distinguishes between interest rate risk, foreign exchange risk and fluctuations in credit and liquidity spreads.

- Interest rate risk is defined as the risk to annual results and capital resulting from unfavorable market interest rate fluctuations.
- Foreign exchange risk is defined as the risk to annual results and capital resulting from unfavorable exchange rate fluctuations.
- Spread risk is defined as the risk to annual results and capital resulting from unfavorable credit and liquidity spread fluctuations.

INTEREST-RATE RISK

BNG Bank applies an active interest rate position policy, aimed at achieving additional return on equity by anticipating interest rate fluctuations. The Asset & Liability Committee (ALCO), in which all Executive Board members participate and have the voting right, is responsible for implementing this policy. In addition to Executive Board members, ALCO also contains the managing directors responsible for Treasury, Public Finance and Economic Research and the head of Risk Control. Working on the basis of market forecasts from Treasury and Economic Research, ALCO periodically determines the bank's interest rate outlook and defines – within the predetermined framework – the limits within which the Treasury directorate will operate.

Risk Control is responsible for the independent monitoring of market risk and provides advice on organizing market risk management. The department prepares reports for ALCO and Treasury and provides risks analyses and advice, both proactively and upon request. The Treasury directorate is responsible for day-to-day interest rate risk management. This directorate is responsible for hedging the market risks resulting from commercial activities, and manages the bank's interest rate position. In order to ensure functional separation, gathering market information and the actual revaluation of financial instruments are the responsibility of the Processing directorate. Risk Control has to approve changes in respect of the system applied and the market information used, as well as valuation proposals for new transactions that do not fall under any prescribed standard. BNG Bank applies a broad range of risk standards and management systems in order to control its exposure to interest rate risks. In doing so, the bank applies methods regarded as best practices. If necessary, it will develop conceptual frameworks, models and systems. The key risk standards applied by BNG Bank consist of duration, susceptibility to interest rate fluctuations per time interval (delta) and Value at Risk (VaR). Together, these interest rate risk standards form a coherent whole which – when combined with other indicators – provide a basis for ensuring the transparency and manageability of risks. To this end, the bank prepares reports (in various degrees of detail and at various frequencies) for a range of target groups.

To a limited extent, techniques such as scenario analysis and stress testing are also applied to assess market value changes as a result of major interest rate shocks. The outcomes serve as a supplement to the standards used to assess risks under 'normal' market conditions. BNG Bank mainly applies scenario analysis and stress testing in order to gain deeper insight into the correlations between interest rate fluctuations and market value. A common scenario used to gain insight into the type of risks that occur under extreme conditions is an instantaneous parallel interest rate shock of plus or minus 200 basis points. This scenario is also featured in Basel II regulations, where it is used to express the maximum relationship between market risk and equity. This is referred to as the outlier criterion. If the outlier criterion is exceeded, the regulator will conduct an investigation. The bank applies an internal threshold value which serves as an early warning. The bank's market risk policy also specifies that the duration of equity may not exceed 10. The table below outlines the effect of an instantaneous interest rate shock at the end of 2012. It provides an overview of the resulting market value fluctuation. This fluctuation is then broken down in terms of its impact on the bank's results. Finally, the right column outlines the market value fluctuation's estimated impact on the bank's results after 2013.

The impact before tax of an instantaneous interest rate shock on the market value at 31 December 2012 (31 December 2011).

	TOTAL MARKET VALUE MOVEMENT		IMPACT ON THE INCOME STATEMENT		IMPACT ON EQUITY		LONG-TERM IMPACT ON THE INCOME STATEMENT	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011	31-12-2012	31-12-2011	31-12-2012	31-12-2011
INTEREST RATE SHOCK								
+200 bp	−263	−224	+27	+30	−3	−5	−287	−249
−200 bp	+121	+70	−43	−49	+3	+5	+161	+114
ACCOUNTING CLASSIFICATION			FAIR VALUE THROUGH THE INCOME STATEMENT		FAIR VALUE THROUGH EQUITY		AMORTIZED COST	

The bank’s income statement and/or equity is only affected immediately by a limited part of these market value fluctuations. In the example described above (the 200 basis points scenario), EUR 27 million positive is immediately reflected in the annual result, with a EUR 290 million negative impact on future years. Of this total amount, EUR 3 million negative immediately ends up in the bank’s equity. These figures are known as Earnings at Risk. As the table shows, a relatively large market value shock due to interest rate fluctuations will only have a relatively minor effect on the bank’s annual result. This is due to the fact that the majority of the bank’s interest rate result is determined on the basis of amortized costs, so that gains and losses due to interest rate fluctuations are spread out over a far longer period in the result. This is due to the bank’s hedging strategy. Complex tailor-made products are less suited for this form of hedge accounting. As a result, the fair value fluctuations of a part of the assets are recorded in the income statement.

FOREIGN EXCHANGE RISK

The bank obtains a large portion of its funding in foreign currencies, and is thus exposed to major potential foreign exchange positions. The bank’s policy specifies that all foreign exchange risks should be hedged in full. Minor currency exposures may occur in certain cases where it is not cost-efficient to hedge these risks.

CREDIT SPREADS, LIQUIDITY SPREADS AND INTEREST RATE RISK MANAGEMENT

BNG Bank’s interest rate position is determined over its entire portfolio of assets and liabilities. The interest rate position is valued on the basis of a yield curve made up of market-based swap rates plus credit and liquidity risk spreads and discounts. Due to their relatively safe nature, the interest-bearing securities on BNG Bank’s balance sheet traditionally had extremely low credit and liquidity risk spreads in comparison with this swap curve. However, these spreads have widened as a result of the financial crisis, thus making it more difficult to manage the bank’s interest rate position. In response to this development, the bank is currently applying additional information to analyze its interest rate position with and without risk spreads. Interest rate risks are still capped on the basis of market prices and the aforementioned risk spreads and discounts.

MARKET RISK DEVELOPMENTS

The turbulent market conditions, the low absolute interest rate levels and the expectations regarding future interest rate developments kept the bank's interest rate position in terms of duration relatively low throughout 2012. In the current turbulent market, unexpected events can cause major disruptions resulting in additional risk. In 2012, the Earnings at Risk calculations referred to above were integrated into the regular reporting lines. Further extension of stress testing had to be postponed because of the priority given to the implementation of Basel III regulations. Stress testing will be further structured in 2013.

LIQUIDITY AND FUNDING RISK

DEFINITIONS

Liquidity risk is defined as the existing or future threat to the institution's capital and results due to a default at any given time on its payment obligations without incurring any unacceptable costs or losses.

- Short-term liquidity risk is defined as the risk that the bank will not be able to attract sufficient funds to meet its payment obligations.
- Refinancing risk or long-term liquidity risk is defined as the risk that the bank will not be able to attract any (or sufficient) funds at spreads that ensure the continuity of its operations.

GENERAL

Liquidity risk is considered the most serious threat facing banks. As experiences during the financial crisis have confirmed, this form of risk can occur very suddenly and cause a bank to collapse in its wake. Whereas previous legislation tended towards qualitative requirements (principles and best practices), the past few years have seen a focus on quantitative standards, such as liquidity ratios.

In order to monitor its liquidity position, the bank maintains a liquidity expiration calendar that is updated on a daily basis, and prepares weekly multi-year liquidity forecasts. The bank's liquidity position is subject to a system of limits.

The strength of BNG Bank's liquidity position is partly due to the fact that its balance sheet is largely made up of assets eligible as collateral by the central bank. The bank's collateral pledged ensures access to ample borrowing capacity. In addition, an increased portion of the bank's assets is explicitly held for liquidity purposes (known as the liquidity portfolio).

The bank's creditworthiness and good reputation ensure ample and continued access to the international financial markets even under difficult market conditions. BNG Bank's liquidity position is well within the requirements applied by the central bank. In addition to ensuring that the bank is able to meet its short-term payment obligations, BNG Bank's liquidity policy is also aimed at maintaining its excellent level of creditworthiness. To this end, the bank monitors, among others, its long-term liquidity needs. BNG Bank's multi-year liquidity position is determined on the basis of future cash flows. Funding shortages at year-end were within the bank's predetermined limits.

The Treasury directorate is responsible for operational liquidity management. Risk Control independently reports to ALCO on the use of predetermined limits.

DEVELOPMENTS

After the slump of 2011, the money and capital markets improved somewhat in 2012, although the year was still characterized by disrupted markets which fell under the spell of the euro crisis from time to time. It was only after the ECB issued a sweeping statement, confirming its determination to keep the euro and the euro zone intact, that a more or less enduring improvement in market conditions could be perceived. Interest rates in the European swap market remained extremely low, as did the interest rates on Dutch and German government bonds. Although BNG Bank had access to ample long-term funding on this market, the spread it had to pay in 2012 was significantly higher than what it had paid before the crisis. However, the level of these spreads fell considerably in the course of 2012. As in recent years, short-term funding was widely available on highly favorable terms. Again, the bank was regarded as a safe haven in which to place funds. The liquidity profile was adequate in 2012 and the internal liquidity limits were respected. In 2012 the bank submitted an Internal Liquidity Adequacy Assessment Plan (ILAAP) to the Dutch central bank. This plan provides a quantitative and qualitative overview of the bank's liquidity situation under different conditions, and of the manner in which BNG Bank deals with liquidity.

BNG Bank was compelled to pass on the higher price for liquidity in its lending rates. This problem concerns the whole market and therefore did not affect BNG Bank's competitive position. On the contrary: while many banks are reluctant to provide long-maturity loans, even to the creditworthy client groups served by BNG Bank, the bank's liquidity profile enabled it to continue serving these clients.

MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES ON THE BASIS OF THE REMAINING CONTRACTUAL PERIOD

The amounts featured in the table below represent all non-discounted future cash flows of financial assets and liabilities. For the maturity analysis of issued guarantees and irrevocable commitments, please refer to notes 34 and 35.

	31-12-2012				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	2,834	–	–	–	2,834
Amounts due from banks	7,188	407	2,435	617	10,647
Financial assets at fair value through the income statement (excluding derivatives)	66	76	727	2,829	3,698
Financial assets available-for-sale	789	654	2,128	7,105	10,676
Loans and advances	8,480	11,426	39,795	58,585	118,286
Other assets	15	–	–	–	15
TOTAL ASSETS	19,372	12,563	45,085	69,136	146,156
Amounts due to banks	−4,034	−1,090	−1,104	–	−6,228
Financial liabilities at fair value through the income statement (excluding derivatives)	−48	−293	−293	−910	−1,544
Debt securities	−10,154	−17,281	−50,664	−29,126	−107,225
Funds entrusted	−4,098	−841	−2,017	−10,703	−17,659
Subordinated debts	−1	−2	−9	−47	−59
Other liabilities	−75	–	–	–	−75
TOTAL LIABILITIES	−18,410	−19,507	−54,087	−40,786	−132,790

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	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
					31-12-2012
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	4,120	10,359	30,913	23,858	69,250
Assets amounts payable	−3,143	−7,603	−21,804	−17,711	−50,261
ASSETS	**977**	**2,756**	**9,109**	**6,147**	**18,989**
Liabilities amounts receivable	9,049	4,676	9,219	27,510	50,454
Liabilities amounts payable	−10,026	−7,123	−18,722	−35,589	−71,460
LIABILITIES	**−977**	**−2,447**	**−9,503**	**−8,079**	**−21,006**
TOTAL DERIVATIVES	**0**	**309**	**−394**	**−1,932**	**−2,017**
GRAND TOTAL	**962**	**−6,635**	**−9,396**	**26,418**	**11,349**

	31-12-2011				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	5,149	–	–	–	5,149
Amounts due from banks	4,715	851	2,728	771	9,065
Financial assets at fair value through the income statement (excluding derivatives)	31	80	752	2,957	3,820
Financial assets available-for-sale	111	318	3,119	5,368	8,916
Loans and advances	8,631	11,708	41,927	56,710	118,976
Other assets	14	–	–	–	14
TOTAL ASSETS	**18,651**	**12,957**	**48,526**	**65,806**	**145,940**
Amounts due to banks	−4,870	−860	−1,781	–	−7,511
Debt securities	−12,200	−13,442	−54,938	−30,197	−110,777
Funds entrusted	−5,363	−796	−1,041	−7,651	−14,851
Subordinated debts	−1	−3	−16	−158	−178
Other liabilities	−129	–	–	–	−129
TOTAL LIABILITIES	**−22,563**	**−15,101**	**−57,776**	**−38,006**	**−133,446**

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	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
					31-12-2011
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	10,980	11,915	35,826	25,896	84,617
Assets amounts payable	–9,862	–10,072	–27,476	–19,411	–66,821
ASSETS	**1,118**	**1,843**	**8,350**	**6,485**	**17,796**
Liabilities amounts receivable	2,300	2,169	8,093	23,982	36,544
Liabilities amounts payable	–3,279	–3,611	–15,404	–31,772	–54,066
LIABILITIES	**–979**	**–1,442**	**–7,311**	**–7,790**	**–17,522**
TOTAL DERIVATIVES	**139**	**401**	**1,039**	**–1,305**	**274**
GRAND TOTAL	**–3,773**	**–1,743**	**–8,211**	**26,495**	**12,768**

LIQUIDITY PORTFOLIO

The purpose of the liquidity portfolio is to have quick access to cash when conditions are stressed, without using the name BNG Bank. This desire is prompted primarily by prudential liquidity policy, but also by the obligation to fulfill the regulatory requirements. At year-end 2012, the Liquidity Coverage Ratio (LCR) market value totaled EUR 7.6 billion (2011: EUR 6.9 billion).

LCR CLASS	31-12-2012 REMAINING PRINCIPAL AMOUNT	MARKET VALUE	LCR MARKET VALUE
Level I – Government	3,575	4,114	4,114
Level I – Supranational	2,007	2,278	2,278
Level II – Covered bonds	1,076	1,190	1,012
Level II – Corporates	73	76	65
Level II – Government/Supranational	204	176	150
TOTAL	**6,935**	**7,834**	**7,619**

LCR CLASS	31-12-2011 REMAINING PRINCIPAL AMOUNT	MARKET VALUE	LCR MARKET VALUE
Level I – Government	2,497	2,857	2,857
Level I – Supranational	1,357	1,489	1,489
Level II – Covered bonds	2,448	2,451	2,083
Level II – Corporates	328	360	306
Level II – Government/Supranational	211	189	161
TOTAL	**6,841**	**7,346**	**6,896**

CLARIFICATION:

- LCR class: assets group within the liquidity portfolio in which the distinction between Level I (highly liquid) financial assets and Level II (liquid) financial assets was made on the basis of the Liquidity Coverage Ratio class;
- Remaining principal amount: outstanding principal amounts translated into EUR;
- Market value: market value of the unencumbered part of the liquidity portfolio;
- LCR market value: LCR liquidity value of the unencumbered part of the portfolio.

The liquidity portfolio can be used for purposes of active liquidity management in the form of repo transactions or as the fulfillment of collateral obligations under CSAs. BNG Bank used a nominal amount of EUR 400 million (2011: EUR 200 million) in LCR positions as collateral in repo transactions. As in 2011, no LCR positions were placed as collateral.

OPERATIONAL RISK

DEFINITIONS

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

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

GENERAL

Line management has primary responsibility as the 'first line of defense' for risk management in day-to-day operations, in conformity with policy and arrangements. In this, it is supported by specialized departments, such as the Internal Control department. It is not possible, nor necessary, to fully mitigate operational risks. However, these risks must be made transparent and manageable. Risk Control is the 'second line of defense' and is responsible for providing an overview and understanding of risks, as well as control guidelines. It supports and advises line management by facilitating periodical risk self-assessments and by analyzing operational risks. The risks, control measures and residual risks identified are documented. The performance of internal and external background analyses improves the accuracy of the self-assessments. Risk Control will propose supplementary control measures where necessary and monitor their timely implementation. Residual risks will be reported to the responsible managing director, who will, if applicable, advise the Executive Board on their acceptance. The IAD conducts independent assessments in supplement to the risk analyses and the risk self-assessments by Risk Control and the activities of Internal Control, in order to determine the existence and effect of control measures. The IAD constitutes the 'third line of defense' and reports to the Executive Board. Each year, the managing directors and a number of department heads inform the Executive Board whether they are in control of the processes and risks for which they are responsible. The compliance officer conducts periodical integrity analyses.

BNG Bank registers all operational incidents upwards of a predetermined scale. To this end, employees involved in the operational process report the incidents to Risk Control. In addition to registering incidents, Risk Control conducts joint assessments with the various departments in order to determine whether the prevention of future incidents will require any adjustments to the process, systems or working methods. Every quarter, Risk Control reports to the Executive Board, management and the various department heads. It provides annual reports on incidents with a (potential) impact of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. The 2012 incident report related to 2 incidents (2011: 4). The impact of these incidents on the bank's annual results was limited.

IT RISK

BNG Bank's information policy is based around ensuring the unobstructed and controllable operation of the information system and limiting the complexity of the IT environment. The management of IT risk is based on the application of preventative rather than remedial measures. These measures are aimed at preventing (potential) incidents or detecting them at the earliest possible opportunity and limit the potential resulting damage or restoring the desired situation as quickly as possible. According to the outcome of the annual fallback test held in 2012, the bank's backup systems are adequately equipped to ensure that services continue as normal in the event of a calamity.

Due to the increased diversity and complexity of financial instruments, the control functionality of the bank's financial system and supporting organizational structure had reached its maximum capacity. In addition, the ongoing financial crisis necessitated closer and more proactive monitoring of the loan portfolio than had previously been the case. After the introduction in 2011 of a new system for capturing complex credit facilities and for adequately monitoring the associated limits, a new module was implemented in 2012 which enables a more detailed level of security records and automated monitoring of covenants and other terms. These tools offer significant support in limiting the operational risks entailed by the management of the portfolio.

In the coming years there will be more emphasis on risk information. Both internal and external requirements in this respect have greatly increased. It will require major efforts to continue producing high-quality and coherent risk information, in particular for the areas of market risk and liquidity risk. A part of the internal risk systems needs modernizing in both technical and functional terms. This process will be started in 2013. The greatly increased correlation between accounting information and risk information will be a point for attention in the future information architecture.

The internal IT department, which is responsible for application development in particular, will be temporarily extended in 2013 in order to meet increased demand.

OUTSOURCING RISK

BNG Bank has outsourced a large part of its IT activities to Centric FSS. These activities include payment services and current account administration, the computing center and workstation management. BNG Bank's activities are linked to those carried out by Centric FSS via Service Level Agreements and the bank's internal demand organization. Centric FSS's operational services over the course of 2012 were of a satisfactory standard.

Projects on updating the payment service platform and redesigning the workspace based on new software versions could not be completed in 2012 and will continue into 2013. In structuring the payment service platform, software problems place restrictions on the desired functionality. The new workspace has been put into use for a pilot group. The level of quality which BNG Bank requires for full implementation could not yet be delivered due to flaws in the interaction between different software components. Both projects are expected to be completed early in 2013.

IT support is crucial for a bank. This is why BNG Bank has a procedure in place for proper monitoring and evaluation of the service provider's services. The IAES 3402 statement annually issued by Centric FSS is part of this procedure.

INTEGRITY RISK

Integrity is a key part of the operations. The BNG Company Code serves as a guideline for all actions undertaken by BNG Bank and its employees. The bank values ethical and reliable behavior over an exclusive focus on financial profit. The BNG Company Code is published on the bank's website. In response to the financial crisis, the Banking Code and new legislation on remuneration policy were introduced in order to enforce standards for responsible business practices. New employees, recruited both internally and externally, are assessed on their integrity when they take up their duties.

The bank also applies ethical standards to the actions of its clients and suppliers. To this end, it has formulated regulations on the acceptance, identification and monitoring of clients and transactions as a part of Customer Due Diligence.

LEGAL RISK

The bank is working towards better and automated administration of contractual stipulations in agreements with clients. The aim is to standardize terms and conditions. To this end, the internal (contract) models library is being further developed. This process was initiated in 2012 and will be continued in 2013. The continual updating of management procedures is essential in order to ensure the enforceability of BNG Bank's contractual agreements with its clients. It is also important that, in order for the lending activities to be efficient, the number of manual activities in the operational process is kept to a minimum and the necessity of sorting out individual contracts is prevented where possible.

With regard to tailor-made legal products in areas in which the in-house legal department has little experience, the bank seeks a second opinion from external lawyers before such products are approved from a legal perspective.

OPERATIONAL RISK DEVELOPMENTS

The bank has a limited workforce. This makes it relatively vulnerable at times when many changes occur over a short period. Examples of changes taking place at present include:

- New requirements for services to clients. This involves aspects such as the changing duty of care for housing associations (which may no longer be classified as professional investors) and tailor-made constructions, for instance in order to consolidate clients' derivatives portfolios.
- Developments in the financial markets, which force BNG Bank to change transaction valuation methods and to adjust complex hedge accounting processes.
- A constant stream of new regulations which must be interpreted and implemented, in combination with an increasing number of requests for additional information from regulators.

BNG Bank follows these developments and implements the necessary adjustments to systems and processes using its existing workforce and, where necessary, with the help of external hired staff. Such activities cause delays in regular activities and scheduled projects. When changes turn out to be structural, the bank increases its workforce. As BNG Bank is a technology-intensive and knowledge-intensive business in which the staff's activities often cover various areas of expertise, the induction of new employees takes time. The conclusion is that management and employees will have to make major efforts, also in the coming years, to implement the necessary changes in the controlled manner desired by the bank.

STRATEGIC RISK

DEFINITIONS

Strategic risk is defined as the risk that strategic decisions could result in losses and/or the risk that external risk factors could affect the bank's competitive position, stakeholders, reputation and business climate. Strategic risk consists of the following aspects:

- Competitive risk is the risk that the bank's competitive and market position will be influenced by the activities, actions and/or decisions of new or existing competitors.
- Dependency risk is the risk that stakeholder influence and developments will result in a conflict of interest with the bank and/or affect the institution's financial position.
- Reputation risk is the risk that the bank's market position will deteriorate due to a negative perception of its image amongst stakeholders.
- Risks resulting from the business climate are risks due to changes in the economy, stock exchange climate, wage and/or purchasing power developments, broader society, politics and technology.

COMPETITIVE RISK, DEPENDENCY RISK AND BUSINESS CLIMATE

The market served by BNG Bank is relatively inaccessible for new players, in particular because the profit margins on loans and advances are relatively low. This means that scale and efficiency are keys to a profitable business model. Parties striving to maximize their profits will thus enter this market only on a limited scale. As a result, the bank's exposure to competitive risk is traditionally limited. At times like these, in which capital costs are soaring and many banks are reducing their balance sheets, competition does not normally increase. On the contrary, there may be a lack of competition. This in itself should not be a problem as long as it does not result in unreasonable actions, such as the charging of excessive lending rates. Therefore BNG Bank's express objective is a reasonable return for its shareholders, rather than profit maximization. Obviously the bank is compelled to pass on the higher purchasing costs which it has to pay itself, and those of liquidity in particular, to its clients. The latter is also necessary because of the refinancing risks, especially in relation to longer maturities. Finally, BNG Bank has to increase its capital buffers as well, for which it needs income from lending.

BNG Bank has a high dependency risk with respect to governmental developments. The relevant developments in this area are:

- The decision to introduce compulsory treasury banking without loan facility. The bank is not in favor of this and has made those involved aware of the disadvantages for the client and the bank. Obviously, the bank cooperates loyally in the implementation of government policy.
- The public sector cuts are expected to bring about a (temporary) fall in investment levels and a possible reduction in long-term demand for credit. Although growth is the preferred option to improve a company's overall vitality, this will make it easier for the bank to meet the target leverage ratio under Basel III.

The business climate remains a cause for concern in view of the debt problems in Europe and the damaged position of the Dutch banking sector. The Dutch State's excellent creditworthiness is essential for BNG Bank, because the bank's rating can never exceed that of the State. The bank aims to maintain its rating at the same level as that of the Dutch State. BNG Bank received its high ratings from the rating agencies especially because its own financial strength, its role within the public sector, the quality of its assets and the shareholder structure. The rating agencies' confidence in the Dutch banking sector in general plays a part as well. If this confidence should be further reduced, such a reduction might affect BNG Bank's rating without any change in the creditworthiness of the bank itself.
The risk that investor confidence in the entire euro zone falls to such an extent that BNG Bank can no longer obtain funding at acceptable costs in the capital market seems to have lessened in 2012. The decrease in the borrowing costs of the GIIPS countries is an indicator for the decrease in the turmoil on the financial markets. Although the crisis may be past its peak, it is by no means over. Another source of concern is the bank levy that has meanwhile been introduced. In determining the amount of this levy, the balances held by clients that are covered by deposit-guarantee scheme can be offset against the size of the balance sheet. Because the bank does not serve any retail

customers, it is taxed more heavily, relatively speaking, than many other banks. In 2012, the bank levy was equivalent to around 10% of net profits at a time when the bank was forced to increase its capital buffers so as to ensure its future ability to meet the leverage ratio announced in the regulations.

REPUTATION RISK

BNG Bank is always looking for solutions that are in the client's interest. It considers this to be of vital importance for its reputation as a bank of and for the public sector. In 2012, this became clear in the developments concerning housing associations.

Until recently, BNG Bank could regard its clients as professional parties in the great majority of cases. Obviously, the bank was always fully aware of its duty of care towards its clients. However, this acquired a different meaning at the end of 2012, when the Ministry of the Interior labeled housing associations as non-professional parties. This decision was prompted primarily by the liquidity problems experienced by a number of associations as a result of collateral obligations due to changes in the market value of derivatives. When the bank receives a request for a financing arrangement (with or without derivatives) which it considers unsuitable for the client concerned, it will inform that client accordingly. This mainly concerns smaller organizations of which the bank assumes that they lack the in-house expertise to assess – for example – the value development of financial instruments under stressful market conditions. This is factored into the bank's product approval process.

For this reason, BNG Bank has never encouraged its clients to use derivatives, although it did provide derivatives in certain cases. In 2012, BNG Bank actively helped a number of housing associations to convert interest rate swaps into a loan product. This removed potential liquidity problems for these associations as a result of collateral obligations.

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

CAPITAL AND SOLVENCY

CAPITAL MANAGEMENT POLICY

The bank's capital management policy documents the bank's approach to the relationship between quantifying expected and unexpected risks and determining the amount of economic capital needed to bear these risks. The capital management policy serves to ensure that the bank can meet its financial commitments immediately, even under extremely unfavorable circumstances. This involves identifying the relevant risks, quantifying these risks, calculating the capital requirements and assessing capital adequacy. Capital limits ('trigger ratios') have been set for market risk, credit risk and operational risk. Trigger ratios are thresholds that prompt measures when exceeded. These measures include reducing risks, attracting additional capital or adjusting the target capital. The trigger ratios for economic capital were not exceeded in 2012. The bank's capital management policy is formalized in a capital management plan. The bank is engaged in a dialogue with regulators on its capital management policy (the supervisory review process). The 2012 capital management plan was prepared in accordance with the guidelines applicable under the Basel II regulations. The new Basel III regulations are already casting their shadow, however.

SOLVENCY

BASEL II

The minimum percentages for total capital and core capital are 8% and 4% of the risk-weighted assets, respectively. In order to accomplish its mission, the bank applies a policy aimed at maintaining low funding costs. This can only be achieved by maintaining its high ratings. To this end, the bank's capitalization and dividend policy defines a minimum threshold for the BIS Tier 1 ratio (or core capital ratio) of 18%. BNG Bank has applied the self-imposed Tier 1 capital ratio of 18% for several years now. This ratio is also sufficient to meet the requirements of Basel III. Because the positive difference in relation to other banks will diminish, the bank intends to increase the self-imposed minimum value for this ratio.

	31-12-2012		31-12-2011	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
BASEL II PRINCIPLES				
Total capital	938	2,576	932	2,431
BIS total capital ratio	8%	22%	8%	21%
Core capital (Tier 1 capital)	469	2,576	466	2,356
BIS core capital ratio (Tier 1 ratio)	4%	22%	4%	20%
Risk-weighted assets	N/A	11,729	N/A	11,647
Leverage ratio (LR)	N/A	2.0%	N/A	1.8%

CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	31-12-2012		31-12-2011	
	RISK-WEIGHTED ASSETS	CAPITAL REQUIREMENTS	RISK-WEIGHTED ASSETS	CAPITAL REQUIREMENTS
CREDIT RISK				
Standardized approach (divided by category)				
Local governments	405	32	437	35
Institutions	599	48	829	66
Corporations	7,273	582	7,257	581
Associations, foundations, et cetera	673	54	748	60
Covered bonds	439	35	220	18
Securitizations	1,205	96	1,167	93
Participations in investment funds	107	9	68	5
Other	137	11	165	13
TOTAL CREDIT RISK	**10,838**	**867**	**10,891**	**871**
MARKET RISK				
Standardized approach	23	2	–	–
OPERATIONAL RISK				
Basic indicator approach	868	69	756	61
TOTAL	**11,729**	**938**	**11,647**	**932**

BASEL II CAPITAL

	31-12-2012	31-12-2011
Share capital	139	139
Share premium reserve	6	6
Statutory reserves and reserves under the Articles of Association	571	553
Other reserves	1,670	1,496
Profit current financial year	332	256
Expected dividend payment	–83	–64
Deductible items	–59	–20
Negative revaluation AFS equity	–	–10
TIER 1 CAPITAL	**2,576**	**2,356**
Positive revaluation AFS equity	10	1
Subordinated debts	33	93
Deductible items	–43	–19
ADDITIONAL CAPITAL	**–**	**75**
QUALIFYING CAPITAL	**2,576**	**2,431**

BASEL III

Under Basel III, a number of new liquidity ratios will be introduced. In addition to the leverage ratio, BNG Bank will also report the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR indicates to what extent BNG Bank can absorb a stressed net outgoing cash flow over a 30-day period with an adequate liquid assets buffer. The NSFR is a ratio for liquidity over a one-year period. This ratio is calculated by dividing the available stable funding by the required stable funding. Both the LCR and the NSFR should be at least 100%. BNG Bank meets these minimum requirements. The 3% leverage ratio stipulated by Basel III in respect of 2018 is a greater challenge.

This ratio is a full percent higher than the 2% which the bank has applied until now. The manner in which the leverage ratio of Basel III should be implemented is still far from clear. The European Banking Authority has been asked to carry out a monitoring procedure in order to determine the effect of this ratio on the banking sector. A final decision on the format and introduction of this ratio is not expected until the end of 2015. Because this ratio includes 100% of all loans and advances, irrespective of their creditworthiness, the ratio will have a profound impact on the bank. After all, lending largely consists of loans free of credit risk that are granted to or guaranteed by Dutch government authorities at a national or local level. The Basel III Migration Plan describes how the bank intends to comply with this ratio. In this context, the bank decided in 2012 to reduce the dividend to a pay-out percentage of 25%. The possibility of attracting hybrid capital that qualifies as Tier 1 capital is also part of the migration plan. By taking these measures, the bank aims to prevent threats to client lending due to constrictive capital ratios. ■

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset can be exchanged (transaction price) or a liability settled (settlement price) between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments measured at fair value in the balance sheet is determined on the basis of quoted market prices, insofar as these financial instruments are traded 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 are a reflection of current and regularly occurring arm's length market transactions. Quoted market prices are based on bid prices (for financial assets) and offer prices (for financial liabilities). Using mid-market prices is permitted if the market risk of the financial assets and liabilities is offset. Financial instruments which are not traded in an active market, for which no market is maintained or for which there is no quoted market price in an active market are measured on the basis of quoted prices of comparable instruments (Level 1). If quoted prices of comparable instruments are not available, 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 (Levels 2 and 3). Input for these models is based on objectively verifiable market prices, forward pricing, market yield curves, correlations, volatilities, credit spreads (derived from the prices of credit derivatives (Credit Default Swaps)), counterparty creditworthiness and other factors, estimates and assumptions which market parties would use to determine the price (Level 2), or is largely based on non-observable market data (Level 3).

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The bank uses 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 swap curve and a spread for credit and liquidity risk. The credit risk spread is dependent on the creditworthiness of the debtor, taking into account collateral received, guarantees and maturities. In interest rate swaps with clients, a Credit Valuation Adjustment (CVA) is applied for the counterparty credit risk as a market value adjustment. The liquidity risk spread depends on the degree of marketability of the instrument in the market. In virtually all cases, the bank is reliant on theoretical valuations in respect of its debtors. The bank has grouped its debtors on the basis of comparability of credit risk and has allocated a risk-related spread to each group. In addition, the spread is dependent on the maturity of a financial instrument. 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 aforementioned techniques and models. The fair value of the entire instrument is determined as the sum of the fair values of its constituent parts.

	31-12-2012		31-12-2011	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances with the central banks	2,834	2,834	5,149	5,149
Amounts due from banks and Loans and advances	100,896	113,806	99,223	108,592
Financial assets at fair value through the income statement	3,476	3,476	3,322	3,322
Financial assets available-for-sale	9,018	9,018	6,919	6,919
Other financial assets*	25,824	14,474	21,519	13,457
TOTAL FINANCIAL ASSETS	**142,048**	**143,608**	**136,132**	**137,439**
Amounts due to banks and Funds entrusted	18,362	18,636	18,413	18,554
Subordinated debts	33	49	93	137
Debt securities	99,424	100,376	100,907	101,369
Financial liabilities at fair value through the income statement	2,730	2,730	628	628
Other financial liabilities	18,692	18,692	14,367	14,367
TOTAL FINANCIAL LIABILITIES	**139,241**	**140,483**	**134,408**	**135,055**

* The Other financial assets item includes a market value adjustment of EUR 11,350 million positive (2011: EUR 8,062 million positive) by virtue of portfolio fair value hedging, which relates almost entirely to the items Amounts due from banks and Loans and advances. This amount concerns the recognition of the effective parts of the hedged market value movements. Please refer to note 32 for a description of the way in which market risks are hedged with derivatives.

The table below provides an overview of the way in which the fair value is determined for transactions recognized at fair value in the balance sheet:

- **LEVEL 1:** valuation based on quoted prices in an active market.
- **LEVEL 2:** valuation based on valuation techniques using observable market data other than quoted market prices as used at Level 1.
- **LEVEL 3:** valuation based on valuation techniques using non-observable market data.

				31-12-2012
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	–	2,353	1,123	3,476
Financial assets available-for-sale	3,752	4,634	632	9,018
Other financial assets	–	14,474	–	14,474
TOTAL ASSETS	**3,752**	**21,461**	**1,755**	**26,968**
Financial liabilities at fair value through the income statement	–	2,470	260	2,730
Other financial liabilities	–	18,692	–	18,692
TOTAL LIABILITIES	**–**	**21,162**	**260**	**21,422**

				31-12-2011
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	–	2,439	883	3,322
Financial assets available-for-sale	2,307	3,996	616	6,919
Other financial assets	–	13,457	–	13,457
TOTAL ASSETS	**2,307**	**19,892**	**1,499**	**23,698**
Financial liabilities at fair value through the income statement	–	626	2	628
Other financial liabilities	–	14,367	–	14,367
TOTAL LIABILITIES	**–**	**14,993**	**2**	**14,995**

STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES

No investments were made in Level 3 items in 2012, nor were any items transferred from Level 2 to Level 3, or vice versa, during the reporting year. The Level 3 items primarily concern interest-bearing securities backed by mortgages under the National Mortgage Guarantee Scheme (NHG) with a so-called monoliner guarantee. Due to the lack of trade in these interest-bearing securities, the observable market data available for similar securities is not representative of the current fair value. The fair value of Level 3 transactions is determined on the basis of observable market data adjusted by management assumptions concerning credit and liquidity risk spreads.

	2012	
	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	FINANCIAL ASSETS AVAILABLE-FOR- SALE
OPENING BALANCE	881	616
Results:		
– Through the income statement	44	10
– Unrealized value movement	–	31
Investments	–	–
Cash flows	−62	−25
Transferred to Level 2	–	–
Transferred from Level 2	–	–
CLOSING BALANCE	863	632

	2011	
	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	FINANCIAL ASSETS AVAILABLE-FOR- SALE
OPENING BALANCE	**571**	**562**
Results:		
– Through the income statement	−10	10
– Unrealized value movement	–	−18
Investments	–	–
Cash flows	−86	−37
Transferred to Level 2	–	–
Transferred from Level 2	406	99
CLOSING BALANCE	**881**	**616**

SENSITIVITY OF THE BALANCE SHEET VALUE OF LEVEL 3 ASSETS TO A PARALLEL INTEREST RATE SHIFT

	31-12-2012				
		IMPACT ON BALANCE SHEET VALUE OF AN INTEREST RATE SHIFT OF			
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	1,123	−3	3	−28	32
Financial assets available-for-sale	632	−1	1	−11	12
Financial liabilities at fair value through the income statement	−260	−5	5	−42	54
TOTAL	**1,495**	**−9**	**9**	**−81**	**98**

	31-12-2011				
		IMPACT ON BALANCE SHEET VALUE OF AN INTEREST RATE SHIFT OF			
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	883	−8	8	−70	86
Financial assets available-for-sale	616	−1	1	−10	11
Financial liabilities at fair value through the income statement	−2	0	0	0	0
TOTAL	**1,497**	**−9**	**9**	**−80**	**97**

32 HEDGING OF RISKS WITH DERIVATIVES

BNG Bank applies economic hedging as part of its risk management strategy 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 principally 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 paragraph on accounting principles describes the conditions that need to be met before these forms of hedge accounting can be applied.

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

As of 1 July 2011, BNG Bank also applies cash flow hedge accounting to virtually all long-term transactions in foreign currencies in order to protect the bank's result against possible variability in future cash flows due to exchange rate fluctuations. As a result of considerable uncertainties in the money and capital markets, mostly related to the European debt crisis, European financial institutions faced a shortage of funding in primarily US dollars in the course of 2011. As a result, these parties were forced to attract the US dollars needed for their balance sheet management from the currency swap market. This development resulted in a strongly increasing dollar-euro basis swap spread. The basis swap spread is an important building block of the value of a cross currency (interest rate) swap. Therefore, if seen as a separate financial instrument, the fair value of these swaps is influenced by the change in the basis swap spread. However, this change has no economic effect on the bank and it never will, in principle. The US dollar cash flows in the contract continue to be based on the basis swap spread at inception and are, as described, an exact copy

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of the US dollar cash flows from the bond loan that is hedged by the swap. With the exception of voluntary early redemption of funding in foreign currencies or an immediate and complete withdrawal from the banking business, there are no circumstances under which these negative revaluations can lead to a realized result. Nevertheless the bank is obligated under IFRS to recognize the change in the instrument's fair value in its accounts. Under IFRS, the effects of this accounting mismatch must be recognized in the income statement as value adjustments to derivatives. With the use of cash flow hedge accounting as of 1 July 2011, the effective part of the cash flow hedge is recognized in a cash flow hedge reserve in equity. The interest results of both the hedging instrument and the hedged item are accounted for in the income statement in the same period. At year-end 2012, BNG Bank recognized EUR 69 million negative (2011: EUR 282 million negative) as effective value adjustment of hedging instruments in equity by virtue of cash flow hedging.

In portfolio fair value hedging (PH), the interest rate risk of a group of transactions is 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, the effectiveness of portfolio hedging, like that of micro hedging, has been almost perfect in recent years. To prevent further complexity as well as additional hedging costs the bank decided, as a policy issue, not to involve cash flows with a maturity of less than one year in portfolio hedging.
The results arising from this policy are recognized in the income statement. Any ineffectiveness that occurs is also recognized in the income statement. The revaluation of hedged PH items is accounted for under Other financial assets in the balance sheet. In both types of hedge accounting, the derivatives in question are measured at fair value and included in the Other financial assets and Other financial liabilities items.

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. The fair value of derivatives that are not involved in a hedge accounting relationship is stated in the balance sheet item Financial assets at fair value through the income statement if the value is positive, or in the balance sheet item Financial liabilities at fair value through the income statement if the value is negative. For the few derivatives for which this is the case, the economic hedged item is also designated to be measured at fair value through the income statement so that, on balance, the volatility of the result (due to interest rate and foreign exchange risks) is limited.

The derivatives are included in various balance sheet items, depending on their accounting treatment under IFRS. Derivatives are always recognized at fair value in the balance sheet. Derivative contracts with a positive fair value are stated as assets in the balance sheet while derivatives with a negative value are stated as liabilities.

	31-12-2012	31-12-2011
DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP		
Other financial assets	14,474	13,457
Other financial liabilities	−18,692	−14,367
DERIVATIVES NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP		
Financial assets at fair value through the income statement	873	1,090
Financial liabilities at fair value through the income statement	−1,422	−628

The notional amounts of the derivatives are listed below, categorized by balance sheet item and type of derivative.

	31-12-2012		31-12-2011	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
OTHER FINANCIAL ASSETS				
Swaps	96,896	14,474	99,910	13,457
OTHER FINANCIAL LIABILITIES				
Swaps	105,411	−18,692	98,896	−14,367
FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT				
Swaps	8,308	814	6,636	334
Forwards	3,017	16	13,632	674
Options	389	43	802	82
	11,714	873	21,070	1,090
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT				
Swaps	3,294	−888	2,121	−520
Forwards	10,685	−271	568	−14
Options	835	−263	1,068	−93
	14,814	−1,422	3,757	−627

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2012 this collateral amounted to EUR 1,427 million (2011: EUR 2,231 million).

33 RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

The Dutch State owns 50% of the outstanding shares of BNG Bank. Transactions with the State include publicly traded bonds. BNG Bank also extends loans and advances guaranteed by the State. In view of the nature of these transactions, they are not treated as transactions with related parties. In 2007, BNG Bank acquired a 25% interest in Transdev-BNG-Connexxion Holding BV. This company acquired two-thirds of the shares in Connexxion Holding NV from the State. Mr. C. van Eykelenburg was granted a loan in 2008. The amount outstanding at year-end was EUR 707,964 (2011: EUR 709,977). The average interest rate on the loan is 4.3% (2011: 4.3%). The loan was granted under BNG Bank's standard staff terms and conditions.

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 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. The remuneration of the Executive Board consists of a fixed and a variable component. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the collective labor agreement for the general banking industry. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

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REMUNERATION AWARDED TO EXECUTIVE BOARD MEMBERS (AMOUNTS IN THOUSANDS OF EUROS)

	FIXED REMUNERATION		VARIABLE REMUNERATION*		TOTAL SHORT-TERM REMUNERATION		PENSION CONTRIBUTIONS	
	2012	2011	2012	2011	2012	2011	2012	2011
C. van Eykelenburg	448	446	72	72	520	518	146	138
J.J.A. Leenaars	372	366	54	54	426	420	123	116
J.C. Reichardt	356	354	57	57	413	411	64	58
TOTAL	1,176	1,166	183	183	1,360	1,349	333	312

	2012	2011	2010
DEFERRED VARIABLE REMUNERATION			
C. van Eykelenburg	72	72	75
J.J.A. Leenaars	54	54	56
J.C. Reichardt	57	57	53
TOTAL	183	183	184

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

The income statement for 2012 includes EUR 2 million (2011: EUR 2 million) in remuneration and pension costs. No shares or options are awarded.

The variable remuneration has been capped at 35% of the defined components of the fixed remuneration. The awarding of the variable remuneration depends on the degree to which the objectives set by the Supervisory Board have been achieved. Detailed information on this is included in the Report of the Supervisory Board to the shareholders. The achievement of the 2012 variable remuneration targets resulted in 92% of the maximum variable remuneration being awarded (2010: 93%). The Executive Board members received an allowance for business expenses of

EUR 3,900 in 2012 (2011: EUR 3,900). This allowance will not be adjusted in 2013. Long-service emoluments were paid in 2012 to Mr. Leenaars (EUR 6,451) and Mr. Reichardt (EUR 27,383) on the occasion of their 10-year and 20-year anniversaries, respectively.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was amended by the General Meeting of Shareholders in 2011, effective from 1 January 2012. The policy is directed towards market-compatible remuneration that is independent 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 who resigned during the financial year received pro rata remuneration. Members of the Audit & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chairman 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 (2011: EUR 1,000). Members who sat on one or more committees received an additional expense allowance per committee of EUR 500 (Audit & Risk Committee, Market Strategy Committee) and EUR 250 (Remuneration Committee, Selection and Appointment Committee), respectively. Former Supervisory Board members received no remuneration.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

(amounts in thousands of euros)*

	2012	2011
H.O.C.R. Ruding, Chairman	36	31
Mrs. S.M. Dekker, Vice-Chairman and Secretary	31	23
Mrs. Y.C.M.T. van Rooy, Retired Vice-Chairman and Secretary	9	23
R.J.N. Abrahamsen	10	23
H.H. Apotheker	26	23
Mrs. H.G.O.M. Berkers	35	29
T.J.F.M. Bovens	20	–
W.M. van den Goorbergh	35	29
J.J. Nooitgedagt	22	–
R.J.J.M. Pans	26	23
A.G.J.M. Rombouts	9	23
Mrs. M. Sint	11	–
TOTAL	**270**	**227**

* Including additional allowances and excluding expense allowances and VAT.

34 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 states contingent liabilities at the maximum accounting loss that would need to be compensated in the event of the counterparty defaulting.

	31-12-2012	31-12-2011
Contingent liabilities	289	482

35 IRREVOCABLE FACILITIES

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

	31-12-2012	31-12-2011
Master agreements concerning the unutilized part of credit facilities	4,502	4,418
Contracted loans and advances to be distributed in the future	2,868	3,994
TOTAL	**7,370**	**8,412**

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According to contract, distribution of these contracted loans and advances will take place within the following terms:

	31-12-2012	31-12-2011
Up to 3 months	1,190	1,290
3 – 12 months	1,146	1,612
1 – 5 years	532	1,092
TOTAL	**2,868**	**3,994**

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 2.6% (2011: 3.1%). These commitments are included in the interest rate risk management of the entire portfolio.

36 ASSETS NOT FREELY DISPOSABLE

A part of the total assets is not freely disposable because these assets serve to secure money market transactions and lending transactions.

	31-12-2012	31-12-2011
Pledged to the central bank	14,144	12,929
Pledged to other financial institutions	15	15
TOTAL	**14,159**	**12,944**

37 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 participating interests of the company.

38 EVENTS AFTER THE BALANCE SHEET DATE

There were no events subsequent to the balance sheet date that require disclosure or adjustments to the figures in the financial statements.

At the end of January 2013 the Dutch State, exercising a put option, sold the remainder of its shares in Connexxion Holding NV to Transdev-BNG-Connexxion Holding BV (TBCH). Pursuant to the right it was granted in 2007, BNG Bank decided not to take part in the purchase of these shares. This sale diluted the bank's shareholding in TBCH from 25% to approximately 13%. As a result, this participating interest will now be classified in the balance sheet under Financial assets available-for-sale instead of Associates and joint ventures. The bank takes account of the possibility that it may have to recognize an additional loss on this participating interest in 2013.

The nationalization of SNS REAAL on 1 February 2013 has no material direct impact on BNG Bank. The Minister of Finance set the total contribution from the Dutch banks at EUR 1 billion. The bank infers from reports that this amount will be charged in accordance with the criteria applicable to the Deposit-Guarantee Scheme. Therefore the bank expects that it will have to contribute a maximum of EUR 150,000 to this extra bank levy in 2014.

39 LONG-TERM CAPITALIZATION AND DIVIDEND POLICY

A review was carried out in 2006 to assess the desired and necessary capitalization of BNG Bank, partly in view of the bank's liability to pay corporate income tax as of 2005. This resulted in a long-term policy which prescribes a standard dividend pay-out percentage of 50% after taxes and minimum limits for the BIS Tier 1 ratio and the leverage ratio of 18.0% and 2.0%, respectively. If the ratios permit it, an additional payment chargeable to the freely distributable reserves can be made of a minimum of EUR 200 million and a maximum of EUR 500 million. This is on condition that it is clear from talks with the rating agencies that such an additional payment will not negatively influence the bank's ratings, and that a declaration of no objection is received from the Dutch central bank. Under Section 3:96 of the Dutch Financial Supervision Act [Wet financieel toezicht], BNG Bank must submit proposals for additional dividend payments to the Dutch central bank and may only pay out additional dividend after the latter's approval.

The capitalization and dividend policy must now be considered in light of the upcoming changes in Basel regulations that compel banks to retain more capital. The new regulations as well as the current capitalization, relative to the agreed minimum in the policy, resulted in the standard dividend pay-out percentage being lowered to 25% as of the financial year 2011. Moreover, there will be no more additional payments chargeable to the reserves. The reduced standard pay-out percentage basically applies to the entire transition period until 2018, but will be reconsidered as soon as clarity is obtained on the final shape and level of the leverage ratio, or in the unexpected event that expectations on growth and/or result are not met. BNG Bank is currently examining various other options that may enable it to comply in due course with the minimum leverage ratio requirement of 3%.

40 ASSOCIATES AND JOINT VENTURES

	31-12-2012	31-12-2011
ASSOCIATES		
Transdev-BNG-Connexxion Holding BV, The Hague	25%	25%
Participation in and funding of businesses in the broadest sense. This company holds two-thirds of the shares in Connexxion Holding NV.		
Dataland BV, Rotterdam	30%	30%
A municipal nonprofit initiative that aims to make all 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 organizations, ranging from printing and mail services to payment-related, direct marketing and messaging services.		
NV Trustinstelling Hoevelaken, The Hague	40%	40%
Acceptance and administration of pledge-related rights and other collaterals.		

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	31-12-2012	31-12-2011
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Joint development and allocation of land with municipal 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.		
Ontwikkelingsmaatschappij Jachthaven Drimmelen CV, Drimmelen	50%	50%
Ontwikkelingsmaatschappij Jachthaven Drimmelen Beheer BV, Drimmelen	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg CV, Nederweert	50%	50%
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV, 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		
Ontwikkelingsmaatschappij De Drieslag Ommen CV, Ommen	–	80%
Ontwikkelingsmaatschappij De Drieslag Ommen Beheer BV, Ommen	–	50%
Development and allocation of land for industrial estates and residential construction		
De Bulders Woningbouw CV	50%	–
De Bulders Woningbouw BV	50%	–
Development and allocation of land for residential construction		

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	31-12-2012	31-12-2011
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Ontwikkelingsmaatschappij Westergo CV, Harlingen	41%	41%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		
Haventerrein Westzaan CV, Zaanstad	30%	30%
Bedrijventerrein Westzaan Noord CV, Zaanstad	40%	40%
Ontwikkelingsbedrijf Haventerrein Westzaan BV, Zaanstad	50%	50%
Development and allocation of land for industrial estates		
Ruimte voor Ruimte CV I, 's-Hertogenbosch	24%	24%
Ruimte voor Ruimte CV II, 's-Hertogenbosch	24%	24%
Ruimte voor Ruimte Beheer BV, 's-Hertogenbosch	24%	24%
Development and allocation of land for residential construction		
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), 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		

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	31-12-2012	31-12-2011
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%
Development and allocation of land for industrial estates		
Stallingsbedrijf Glastuinbouw Nederland CV, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Beheer BV, The Hague	50%	50%
Development and allocation of land for greenhouse farming locations		
Glastuinbouwontwikkelingsmaatschappij Overbuurtse Polder CV, Bleiswijk	–	33%
Glastuinbouwontwikkelingsmaatschappij Overbuurtse Polder Beheer BV, Bleiswijk	33%	33%
Development and allocation of land for greenhouse farming locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		
ROM-D CV, The Hague	29%	29%
ROM-D Beheer NV, The Hague	25%	25%
Development and allocation of land for residential construction and industrial estates		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		

Continued on next page

Continuation of previous page

	31-12-2012	31-12-2011
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Sportstad Heerenveen Grondexploitatie CV, Heerenveen	50%	50%
Sportstad Heerenveen Grondexploitatie BV, Heerenveen	50%	50%
Development and allocation of land and operation of sports fields		
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		
Waalwaardwonen CV, Zaltbommel	50%	50%
Waalwaardwonen BV, Zaltbommel	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		
Centrumplan Den Burg BV, Den Burg (Texel)	–	50%
OPP Texel Projecten BV	50%	50%
Development and allocation of land for residential construction		

Continued on next page

Continuation of previous page

	31-12-2012	31-12-2011
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Nieuw Overstad BV, Alkmaar	–	13%
Stadover Markt Beheer BV, Alkmaar	–	25%
Stadover Markt CV, Alkmaar	–	25%
Gem Nieuw Overstad CV, Alkmaar	–	13%
Development and allocation of land for residential construction and industrial estates		
BiesboschMarinaDrimmelen Vastgoedontwikkeling CV, Drimmelen	50%	50%
BiesboschMarinaDrimmelen Vastgoedontwikkeling Beheer BV, Drimmelen	50%	50%
Construction of recreational housing		
Vastgoedontwikkeling Handelskade OudeTonge VOF, Oude Tonge	50%	50%
Construction of recreational housing and shops		

SUMMARIZED FINANCIAL INFORMATION ON ASSOCIATES

TRANSDEV-BNG-CONNEXXION HOLDING BV, THE HAGUE

BALANCE SHEET	31-12-2012	31-12-2011
Total assets	32	53
Total liabilities	0	0

INCOME STATEMENT	2012	2011
Income	−21	1
Result for financial year	0	1

OTHER ASSOCIATES

BALANCE SHEET	31-12-2012	31-12-2011
Total assets	5	4
Total liabilities	3	3

INCOME STATEMENT	2012	2011
Income	4	8
Result for financial year	1	–

SUMMARIZED FINANCIAL INFORMATION ON JOINT VENTURES
BNG GEBIEDSONTWIKKELING BV PARTICIPATING INTERESTS

BALANCE SHEET	31-12-2012	31-12-2011
Fixed assets	1	–
Current assets	161	154
TOTAL ASSETS	**162**	**154**
Equity	63	54
Long-term liabilities	1	1
Short-term liabilities	98	99
TOTAL LIABILITIES	**162**	**154**

INCOME STATEMENT	2012	2011
Income	9	3
Expenses	11	11
RESULT FOR FINANCIAL YEAR	**−2**	**−8**

The Hague, 1 March 2013

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN

MRS. S.M. DEKKER, VICE-CHAIRMAN (AND SECRETARY)

H.H. APOTHEKER

MRS. H.G.O.M. BERKERS

T.J.F.M. BOVENS

W.M. VAN DEN GOORBERGH

J.J. NOOITGEDAGT

R.J.J.M. PANS

MRS. M. SINT

Company financial statements

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2012

Amounts in millions of euros

	31-12-2012	31-12-2011
ASSETS		
Cash and balances with the central banks [1]	2,834	5,149
Amounts due from banks [2]	10,171	8,448
Financial assets at fair value through the income statement [3]	3,476	3,322
Other financial assets [4]	25,824	21,519
Financial assets available-for-sale [5]	9,004	6,908
Loans and advances [2]	90,699	90,752
Participating interests [6]	97	113
Property and equipment [7]	18	19
Other assets [8, 9]	71	199
TOTAL ASSETS	**142,194**	**136,429**
LIABILITIES		
Amounts due to banks [10]	6,223	7,469
Financial liabilities at fair value through the income statement [11]	2,730	628
Other financial liabilities [12]	18,692	14,367
Debt securities [13]	99,424	100,907
Funds entrusted [10]	12,124	10,934
Subordinated debts [10]	33	93
Other liabilities [8, 9]	227	148
Total liabilities	139,453	134,546
Equity [14]	2,741	1,883
TOTAL LIABILITIES AND EQUITY	**142,194**	**136,429**

The references refer to the notes to the company financial statements.

COMPANY INCOME STATEMENT 2012

Amounts in millions of euros

	2012	2012	2011	2011
– Interest income [15]	2,112		2,313	
– Interest expenses [16]	1,641		1,862	
Interest result		471		451
Results from participating interests [17]		2		105
– Commission income [18]	23		25	
– Commission expenses [19]	4		5	
Commission result		19		20
Result financial transactions [20]		87		–28
Other results [21]		0		0
TOTAL INCOME		**579**		**548**
– Staff costs [22]	31		29	
– Other administrative expenses [23]	23		20	
Staff costs and other administrative expenses		54		49
Depreciation [24]		1		2
TOTAL OPERATING EXPENSES		**55**		**51**
Impairments [25]		29		0
Bank levy [26]		32		–
PROFIT BEFORE TAX		**463**		**497**
Taxes [9]		–129		–82
NET PROFIT		**334**		**415**

The references refer to the notes to the company financial statements.

COMPANY STATEMENT OF COMPREHENSIVE INCOME 2012

Amounts in millions of euros

		2012		2011
NET PROFIT		**334**		**415**
Changes in currency translation account		–		−132
Changes in cash flow hedge reserve after taxation		213		−282
Changes in revaluation reserve				
– unrealized value adjustments	510		−243	
– realized value adjustments transferred to the income statement	−11		−10	
– changes in taxes	−124		43	
		375		−210
RESULTS RECOGNIZED DIRECTLY IN EQUITY (AFTER TAXATION)		**588**		**−624**
TOTAL		**922**		**−209**

COMPANY CASH FLOW STATEMENT 2012

Amounts in millions of euros

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	2012		2011	
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	463		497	
Adjusted for:				
– Depreciation	1		2	
– Impairments	29		–	
– Unrealized results through the income statement	–75		45	
Cash flow generated from operations		418		544
Changes in amounts due from and due to banks (not due on demand)	–2,791		–380	
Changes in loans and advances	2,672		–1,333	
Changes in funds entrusted	613		2,676	
Changes in derivatives	–990		–322	
Corporate income tax paid	–28		–104	
Bank levy paid	–32		–	
Other changes from operating activities	–531		–497	
		–1,087		40
TOTAL CASH FLOW FROM OPERATING ACTIVITIES *		**–669**		**584**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	–2,140		–2,525	
– Participating interests	–5		–5	
		–2,145		–2,530
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	2,005		3,364	
– Participating interests	–		714	
		2,005		4,078
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**–140**		**1,548**

* Interest received amounted to EUR 5,811 million (2011: EUR 5,799 million) while interest paid amounted to EUR 5,295 million (2011: EUR 5,261 million).

COMPANY CASH FLOW STATEMENT 2012

Amounts in millions of euros

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	2012		2011	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of debt securities	25,359		27,353	
Repayments of issued debt securities	−26,554		−25,406	
Repayments of financial liabilities at fair value through the income statement	−56		–	
Subordinated debts	−65		−4	
Dividend paid	−64		−128	
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**−1,380**		**1,815**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**−2,189**		**3,947**
Cash and cash equivalents as at 1 January		5,022		1,075
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**2,833**		**5,022**
Cash and cash equivalents as at 31 December are comprised of:				
– Cash and balances with the central banks		2,834		5,149
– Cash equivalents in the Amounts due from banks item		2		4
– Cash equivalents in the Amounts due to banks item		−3		−131
		2,833		**5,022**

COMPANY STATEMENT OF CHANGES IN EQUITY 2012

Amounts in millions of euros

2012

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	CURRENCY TRANSLATION ACCOUNT	RESERVE FOR FAIR VALUE INCREASES	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
OPENING BALANCE	139	6	−272	−282	–	0	1,877	415	1,883
Realized results								334	334
Unrealized results			375	213					588
Transfer to reserve for fair value increases						208	−208		–
Dividend payment							−64		−64
Appropriation from profit previous year							415	−415	–
CLOSING BALANCE	**139**	**6**	**103**	**−69**	**–**	**208**	**2,020**	**334**	**2,741**

2011

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	CURRENCY TRANSLATION ACCOUNT	RESERVE FOR FAIR VALUE INCREASES	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
OPENING BALANCE	139	6	−62	–	132	0	1,777	228	2,220
Realized results								415	415
Unrealized results			−210	−282	−132				−624
Dividend payment							−128		−128
Appropriation from profit previous year							228	−228	–
CLOSING BALANCE	**139**	**6**	**−272**	**−282**	**–**	**0**	**1,877**	**415**	**1,883**

Accounting principles for the company financial statements

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

PARTICIPATING INTERESTS

The participating interests are recognized at cost in the company financial statements. This leads to a difference in equity compared with the consolidated financial statements. In addition, there is a difference in the accounting method for dividends. At the time of receipt, dividends are recognized in the income statement in the Results from participating interests item.

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 decreases of financial instruments stated as assets in the balance sheet for which there is no active market quotation.

FOREIGN CURRENCY

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

For purposes of comparison, the comparative figures have been restated where necessary. This is explained under the item concerned. ■

Notes to the company financial statements

Amounts in millions of euros

1 CASH AND BALANCES WITH THE CENTRAL BANKS

This item comprises all legal tender, as well as cash balances and deposits with the Dutch central bank and the European Central Bank.

	31-12-2012	31-12-2011
Cash balances held with central banks	834	299
Overnight deposits with central banks	–	2,600
Short-term deposits with central banks	2,000	2,250
TOTAL	2,834	5,149

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2

AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These items include all receivables from banks, the loans and advances measured at amortized cost, as well as interest-bearing securities, insofar as these are not traded on an active market.

	AMOUNTS DUE TO BANKS		LOANS AND ADVANCES		TOTAL	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Short-term loans and current accounts	2	4	5,687	5,884	5,689	5,888
Reverse repos	2,235	2,797	501	502	2,736	3,299
Cash collateral	6,839	4,029	–	–	6,839	4,029
Long-term loans	28	35	81,174	80,035	81,202	80,070
Interest-bearing securities	151	147	674	1,009	825	1,156
Medium Term Notes	459	963	98	134	557	1,097
Reclassified available-for-sale investments	457	473	2,603	3,219	3,060	3,692
Incurred loss provision	–	–	−38	−31	−38	−31
TOTAL	**10,171**	**8,448**	**90,699**	**90,752**	**100,870**	**99,200**

	31-12-2012	31-12-2011
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	31	31
Additions during the financial year	8	0
Withdrawals during the financial year	−1	–
TOTAL	**38**	**31**

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3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes assets specifically designated as at fair value with changes in fair value recognized in the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2012	31-12-2011
Derivatives	873	1,090
Loans and advances	973	911
Securities	1,630	1,321
TOTAL	3,476	3,322

The total redemption value of the loans and advances and securities at year-end 2012 is EUR 2,161 million (2011: EUR 2,175 million).

4 OTHER FINANCIAL ASSETS

This balance sheet item includes the fair value of derivatives involved in a hedge accounting relationship and the value adjustments concerning the effective part of the market value adjustments due to interest rate risks of assets hedged at a portfolio level.

	31-12-2012	31-12-2011
Derivatives involved in a portfolio hedge accounting relationship	4,651	3,886
Derivatives involved in a micro hedge accounting relationship	9,823	9,571
Market value adjustments of assets hedged at a portfolio level	11,350	8,062
TOTAL	25,824	21,519

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5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes fixed and variable rate bonds and other interest-bearing securities and equity instruments, insofar as they are not recognized in Financial assets at fair value through the income statement.

	31-12-2012	31-12-2011
Government	5,507	3,743
Supranational organizations	812	439
Banks	1,429	1,190
Other financial institutions	659	790
Non-financial institutions	531	707
Investments in participating interests	66	39
TOTAL	9,004	6,908

TRANSFERS WITHOUT DERECOGNITION

At the end of 2012, the bank sold EUR 671 million (2011: EUR 660 million) in bonds, while simultaneously entering into total return swaps worth EUR 651 million (2011: EUR 654 million) through which it retained entitlement to the cash flows and remained exposed to the risks. For this reason, these bonds were not derecognized. As in 2011, no new transactions were concluded in 2012. As at 31 December 2012, the balance sheet value also includes EUR 567 million (2011: EUR 229 million) in interest-bearing securities that were sold in repurchase (repo) transactions amounting to EUR 561 million (2011: EUR 226 million).

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6 PARTICIPATING INTERESTS

	INTEREST		COST	
	2012	2011	31-12-2012	31-12-2011
SUBSIDIARIES				
– BNG Vermogensbeheer BV, The Hague	100%	100%	2	2
– BNG Gebiedsontwikkeling BV, The Hague	100%	100%	61	56
– Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	1	1
		SUBTOTAL	64	59
ASSOCIATES				
– Dataland BV, Rotterdam	30%	30%	0	0
– Data B Mailservice Holding BV, Leek	45%	45%	1	1
– NV Trustinstelling Hoevelaken, The Hague	40%	40%	0	0
– Transdev-BNG-Connexxion Holding BV, The Hague (TBCH)*	25%	25%	32	53
		SUBTOTAL	33	54
TOTAL SUBSIDIARIES AND ASSOCIATES		TOTAL	97	113

The decrease in the value of the associate TBCH is attributable to the write-off of the included goodwill of EUR 21 million due to the loss of important public transport concessions. For a description of the associates, please refer to note 40 of the consolidated financial statements.

* This company holds 66.67% of the shares in Connexxion Holding NV.

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7 PROPERTY AND EQUIPMENT

	PROPERTY		EQUIPMENT		TOTAL	
	2012	2011	2012	2011	2012	2011
HISTORICAL COST						
Value as at January 1	47	47	12	12	59	59
Investments	–	–	0	–	0	–
Disposals	–	–	0	–	0	–
Value as at December 31	47	47	12	12	59	59
DEPRECIATION						
Accumulated depreciation as at 1 January	30	29	10	9	40	38
Depreciation during the year	1	1	0	1	1	2
Accumulated depreciation as at 31 December	31	30	10	10	41	40
ACCUMULATED DEPRECIATION AS AT 31 DECEMBER	16	17	2	2	18	19

ESTIMATED USEFUL LIFE	
Buildings	33 1/3 years maximum
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

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8 OTHER ASSETS AND OTHER LIABILITIES

	31-12-2012	31-12-2011
OTHER ASSETS		
Deferred tax asset	–	97
Current tax asset	–	46
Other receivables	71	56
TOTAL OTHER ASSETS	**71**	**199**
OTHER LIABILITIES		
Current tax liability	111	–
Deferred tax liability	39	–
Employee benefits provision	2	2
Other commitments	75	146
TOTAL OTHER LIABILITIES	**227**	**148**

For the deferred tax assets and liabilities, please refer to note 9. The other receivables are primarily composed of amounts receivable from lending to clients. The other commitments are primarily composed of amounts payable related to derivatives and lending to clients. The employee benefits provision concerns a provision for an interest rate discount on mortgage loans to both active and retired employees. This provision has a long-term character.

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

	2012	2011
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**

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9

TAXATION

On the initiative of the Dutch tax authorities, BNG Bank concluded two bilateral agreements ('vaststellingsovereenkomsten') regarding the corporate income tax returns for the 2005-2009 and 2010-2012 periods. BNG Bank evaluated these arrangements with the tax authorities, which resulted in the continuation of the arrangements and the conclusion of a bilateral agreement for the 2013-2014 period. The agreements apply to the BNG Bank fiscal unit. Pursuant to the agreements, 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 available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The fiscal result differs from the commercial result if, on balance, unrealized losses have arisen. If the revaluation reserve increases, the positive amount is added to the fiscal result 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:

	2012	2011
Profit before tax	464	497
Tax levied at the statutory tax rate	–116	–124
Tax adjustment from previous years	–	2
Results from participating interests exempt from taxation	–5	26
Non-deductible costs (bank levy)	–8	–
Other results exempt from taxation	–	14
EFFECTIVE TAX IN THE CONSOLIDATED INCOME STATEMENT	**–129**	**–82**
Nominal tax rate	25.0%	25.0%
Effective tax rate	27.8%	16.5%

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2012	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH NET RESULT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	3		−1	2
Financial assets available-for-sale	0	−64		−64
Cash flow hedge reserve	94	−71		23
TOTAL	**97**	**−135**	**−1**	**−39**

2011	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH NET RESULT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	3			3
Financial assets available-for-sale	−1	1		0
Net investment in a foreign entity	−13		13	0
Cash flow hedge reserve	0	94		94
TOTAL	**−11**	**95**	**13**	**97**

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10 AMOUNTS DUE TO BANKS, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

This includes debts to banks, funds entrusted and subordinated debts, insofar as they are not embodied in debt securities.

	31-12-2012	31-12-2011
Current accounts	2,131	2,495
Deposits from banks	3,589	4,379
Other deposits	2,345	3,317
Cash collateral	1,427	2,231
Private loans	7,643	5,101
Total return swaps	651	654
Repo transactions	561	226
Subordinated debts	33	93
TOTAL	**18,380**	**18,496**

11 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes liabilities specifically designated as at fair value with changes in fair value recognized in the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2012	31-12-2011
Derivatives	1,422	628
Debt securities	1,308	–
TOTAL	**2,730**	**628**

The total redemption value of the debt securities at year-end 2012 is EUR 1,054 million (2011: EUR 0 million).

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12 OTHER FINANCIAL LIABILITIES

This balance sheet item concerns the fair value of derivatives involved in a hedge accounting relationship.

	31-12-2012	31-12-2011
Derivatives involved in a portfolio hedge accounting relationship	18,074	13,364
Derivatives involved in a micro hedge accounting relationship	618	1,003
TOTAL	18,692	14,367

13 DEBT SECURITIES

This includes bonds and other issued negotiable debt securities with either fixed or variable interest rates. Any unsold part of an issue is deducted from the issue in question.

	31-12-2012	31-12-2011
Debenture bonds and euro notes	89,308	88,897
Euro Commercial Paper	10,116	12,010
TOTAL	99,424	100,907

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14 EQUITY

Since BNG Bank has no minority interests, the entire company equity can be attributed to the shareholders. The items included in equity are explained below.

SHARE CAPITAL

The authorized capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. There are no issued shares that are not fully paid up. BNG Bank holds 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 2012.

STATUTORY RESERVES

BNG Bank's statutory reserves consist of the revaluation reserve, the cash flow hedge reserve and the reserve for fair value increases.

REVALUATION RESERVE

Equity contains a revaluation reserve in which the unrealized changes in fair value with respect to the Financial assets available-for-sale item are recognized. This amount is adjusted for taxes. Upon sale of these assets, the associated cumulative result recognized in equity is transferred to the income statement. In determining the freely distributable profit (unappropriated profit), a negative revaluation reserve must be offset against the freely distributable reserves (other reserves).

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CASH FLOW HEDGE RESERVE

With the use of cash flow hedging, the possible variability in future cash flows is hedged. The effective part of changes in the fair value of derivatives, resulting from changes in the cross currency basis spread, is not recognized in the income statement but in the cash flow hedge reserve in equity. In determining the freely distributable profit (unappropriated profit), a negative cash flow hedge reserve must be offset against the freely distributable reserves (other reserves).

RESERVE FOR FAIR VALUE INCREASES

This reserve concerns the positive difference between the fair value and the amortized cost of financial instruments stated as assets in the balance sheet for which there is no active market quotation. This statutory reserve is maintained for capital protection purposes at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit).

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves.

UNAPPROPRIATED PROFIT

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

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	31-12-2012	31-12-2011
Share capital	139	139
Share premium reserve	6	6
Statutory reserves:		
– Revaluation reserve	103	−272
– Cash flow hedge reserve	−69	−282
– Reserve for fair value increases	208	0
Other reserves	2,020	1,877
Unappropriated profit	334	415
TOTAL	**2,741**	**1,883**

15 INTEREST INCOME

This includes the interest income from loans and advances, deposits and investments, as well as the results from financial instruments used to hedge interest rate and currency risks. In addition, other credit-related income received is included in this item.

	2012	2011
Financial assets at fair value through the income statement	70	70
Derivatives not involved in a hedge accounting relationship	171	58
Derivatives involved in a portfolio fair value hedge accounting relationship	−1,722	−1,511
Financial assets available-for-sale not involved in a hedge accounting relationship	21	39
Financial assets involved in a hedge accounting relationship	3,303	3,219
Financial assets at amortized cost	278	388
Other interest income	−9	50
TOTAAL	**2,112**	**2,313**

Return to page 203.

16 INTEREST EXPENSES

This includes the cost of borrowing and related transactions, as well as other interest-related charges.

	2012	2011
Financial liabilities at fair value through the income statement	52	–
Derivatives not involved in a hedge accounting relationship	−34	122
Derivatives involved in a hedge accounting relationship	−1,714	−1,466
Financial liabilities involved in a hedge accounting relationship	2,638	2,584
Financial liabilities at amortized cost	680	598
Other interest expenses	19	24
TOTAL	**1,641**	**1,862**

17 RESULTS FROM PARTICIPATING INTERESTS

This item includes the results from participating interests.

	2012	2011
Associates	0	1
Subsidiaries	2	104
TOTAL	**2**	**105**

For a description of the associates and subsidiaries, please refer to note 6.

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18 COMMISSION INCOME

This item includes income received or to be received from services provided to third parties.

	2012	2011
BREAKDOWN OF THE COMMISSION INCOME		
– Income from loans and credit facilities	14	16
– Income from payment services	9	9
– Income from fiduciary activities	–	–
TOTAL	23	25

19 COMMISSION EXPENSES

This item relates to fees paid or to be paid for services rendered by third parties in relation to loans and credit facilities.

20 RESULT FINANCIAL TRANSACTIONS

This item relates to realized and unrealized results from value adjustments of financial instruments measured at fair value, with changes in fair value recognized in the income statement. These are offset nearly entirely by movements in the market value of the relating derivatives. This item also includes the results from sales of financial assets available-for-sale. In addition, this item includes the changes in the market value adjustments due to the counterparty credit risk (Credit Valuation Adjustment) for interest rate swaps with clients. In 2012, the (very limited) foreign exchange results are included in the various elements of this item. In 2011, the foreign exchange results were recognized separately in item 21 Other results.

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	2012	2011
CHANGES IN MARKET VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS OF WHICH		
– Investments	31	−66
– Derivatives with clients	−11	–
– Structured loans	9	−48
	29	−114
RESULT FROM HEDGE ACCOUNTING		
– Financial assets involved in a fair value hedge accounting relationship	3,731	5,123
– Financial liabilities involved in a micro fair value hedge accounting relationship	−1,139	−2,169
– Derivatives involved in a hedge accounting relationship	−2,566	−2,943
	26	11
RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	11	12
OTHER MARKET VALUE ADJUSTMENTS	21	63
TOTAL	87	−28

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21 OTHER RESULTS

	2012	2011
THE OTHER RESULTS CONSIST OF		
– Income from consultancy services	0	0
TOTAL	**0**	**0**

22 STAFF COSTS

	2012	2011
THE STAFF COSTS CONSIST OF		
Wages and salaries	21	19
Pension costs	3	4
Social security costs	2	1
Addition to provisions	0	0
Other staff costs	5	5
TOTAL	**31**	**29**

23 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, rent and maintenance costs of property and equipment, printing costs, training expenses and advertising expenses.

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24 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 7).

25 IMPAIRMENTS

The impairments in 2012 amount to EUR 29 million (2011: EUR 0 million). In 2012, item 25 (which in 2011 was called 'Addition to the incurred loss provision') is no longer presented as part of the income but as a separate item, after 'Total operating expenses' and before 'Profit before tax'. The comparative figures have been adjusted accordingly.

	2012	2011
THE IMPAIRMENTS CONSIST OF		
Addition to the incurred loss provision for amounts due from banks and loans and advances	8	0
Impairment of associates and joint ventures	21	–
TOTAL	**29**	**0**

The incurred loss provision for loans and advances is included in the note on Amounts due from banks and Loans and advances (note 2). The EUR 21 million impairment of Investments in associates and joint ventures concerns a write-off of goodwill of the associate Transdev-BNG-Connexxion Holding BV due to the loss of important public transport concessions.

26 BANK LEVY

For a breakdown of this item, please refer to note 26 of the consolidated financial statements.

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27

FEES OF EXTERNAL AUDITORS (AMOUNTS IN THOUSANDS OF EUROS)

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

	2012	2011
Audit of the financial statements	372	371
Other audit related services	339	159
Other non-audit related services	21	12
TOTAL	**732**	**542**

28-40

OTHER NOTES

For the details of items 28 through 40, please refer to the notes of the consolidated financial statements.

REMUNERATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

For the details of the remuneration of the Executive Board and the Supervisory Board, please refer to note 33 of the consolidated financial statements.

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The Hague, 1 March 2013

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN

MRS. S.M. DEKKER, VICE-CHAIRMAN (AND SECRETARY)

H.H. APOTHEKER

MRS. H.G.O.M. BERKERS

T.J.F.M. BOVENS

W.M. VAN DEN GOORBERGH

J.J. NOOITGEDAGT

R.J.J.M. PANS

MRS. M. SINT

Other information

Independent auditor's report

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2012 of N.V. Bank Nederlandse Gemeenten, The Hague. These financial statements comprise the consolidated and company balance sheet as at 31 December 2012, the consolidated and company income statement, statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION WITH RESPECT TO THE FINANCIAL STATEMENTS

In our opinion, the financial statements give a true and fair view of the financial position of N.V. Bank Nederlandse Gemeenten as at 31 December 2012 and of its result for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Executive Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code. ■

Amsterdam, 1 March 2013

ERNST & YOUNG ACCOUNTANTS LLP
SIGNED BY W.J. SMIT

Independent Assurance Report

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

ENGAGEMENT

The management of N.V. Bank Nederlandse Gemeenten in The Hague (hereafter: BNG Bank) has engaged us to give assurance over the chapters 'Summary of objectives and their achievement', 'Strategy', 'Report of the Supervisory Board – corporate social responsibility aspects' and 'Sustainability' with the appendix 'CSR Policy BNG Bank' and 'GRI index BNG Bank 2012' (hereafter: the report). In the report, the management of BNG Bank gives an overview on the implemented policy, business operations and performances during 2012. The GRI index 2012 (GRI index BNG Bank 2012.pdf) and 'CSR Policy BNG Bank' as published on the website of www.bng.com are an inseparable part of the report and are therefore part of our assurance engagement. The other references in the report (to www.bngbank.nl, external websites and other documents) are not part of our assurance engagement.

Based on the assurance engagement that we received, our working procedures were aimed to give a reasonable assurance that:

- The report is in all material respects a reliable and sufficient representation of the policy, business operations and performances of BNG Bank during 2012;
- The report is in all material respects in accordance with the application level A of the Global Reporting Initiative as reported by BNG Bank.

The comparative information for the year 2011, which is included in the Report, has been reviewed with a limited level of assurance. The procedures performed in order to obtain a limited assurance aim to verify the plausibility of information and probe less deeply than those performed for assurance engagements aimed at obtaining reasonable assurance.

RESPONSIBILITIES

MANAGEMENT'S RESPONSIBILITY

The management is responsible for the preparation of the report in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative, the social reporting guide of the Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving) and the reporting policy of BNG Bank, including the identification of stakeholders and determination of material subjects. The choices made by management regarding the scope of the report and the reporting policy are set out in the Reporting Parameters section of the GRI-index.

The management is responsible for such internal control as it deems necessary to enable the preparation of the report such that it is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to form a conclusion on the report. We have performed our procedures in accordance with Dutch law. This law requires, among other things, that we comply with ethical requirements and that we plan and conduct our assurance engagement in such a way that reasonable assurance can be given that the report is in all material respects a reliable and sufficient representation of the policy, business operations and performances of BNG Bank during 2012.

The report contains forward-looking information in the form of ambitions, strategy, plans, forecasts and estimates. The fulfilment of such information is inherently uncertain. For that reason, we do not provide assurance relating to future information such as estimates, expectations or targets, or their achievability.

We conducted our engagement in accordance with the Dutch Standards 3410N, 'Assurance Engagements with respect to Sustainability Reports' of the NBA. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the report, whether due to fraud or error.

Our main procedures were:
- Assessing if the information in the report fulfills the criteria of the 'Sustainability reporting Guidelines' of the Global Reporting Initiative, which are included in the reporting principles of BNG Bank;
- Obtaining an understanding of the design and operation of the systems and methods used to collect and process the reported information;
- Interviews with the responsible employees;
- Assessing relevant internal documentation and consulting external sources;
- Conducting quantitative analyses and obtaining an understanding of the information;
- Evaluating the acceptability of the reporting policies

used and their consistent application, as well as reviewing significant estimates and calculations made in preparing the Report;
- Evaluating the overall image of the report.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

CONCLUSION

We conclude that:
- The report is in all material respects a reliable and sufficient representation of the policy, business operations and performances of BNG Bank during 2012 in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative, the social reporting guide of the Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving) and the reporting policy of BNG Bank;
- The report is in accordance with the application level A of the Global Reporting Initiative as reported by BNG Bank. ■

The Hague, 1 March 2013

ERNST & YOUNG ACCOUNTANTS LLP
SIGNED BY R.J. BLEIJS

Stipulations of the Articles of Association concerning profit appropriation

ARTICLE 23 OF THE ARTICLES OF ASSOCIATION RELATING TO THE DISTRIBUTION OF THE PROFIT INCLUDES THE FOLLOWING PROVISIONS:

1. Profit may be distributed only after the General Meeting of Shareholders has adopted the financial statements from which it appears that such distribution is permitted.
2. The company may make payments to the shareholders from the profits available for distribution only insofar as its equity capital exceeds the amount of the paid-up part of the capital plus the statutory reserves.
3. First of all, if possible, an amount of ten percent (10%) of the profit of the financial year available for distribution as evidenced by the financial statements shall be added to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five percent (5%) of the nominal amount of their shareholding.
4. The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholding, insofar as the General Meeting of Shareholders does not allocate this amount to the reserves.
5. The company is empowered to make interim profit distributions, subject to the provisions of Section 105, sub 4, of Book 2 of the Dutch Civil Code. ■

Proposed profit appropriation

Amounts in millions of euros	2012	2011
NET PROFIT	**332**	**256**
THE PROFIT APPROPRIATION IS AS FOLLOWS:		
Appropriation to the Other reserves pursuant to Article 23(3) of the BNG Bank Articles of Association	33	26
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	40	**33**
Appropriation to the Other reserves pursuant to Article 23(4) of the BNG Bank Articles of Association	216	166
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	76	57
	292	**223**

BNG Bank's objectives as defined in the Articles of Association

Article 2 of the Articles of Association contains the following provisions:

1. The objective of the company shall be to conduct the business of banker on behalf of public authorities.
2. In the context of its objective as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending funds, granting loans in other ways, providing guarantees, executing payments, conducting foreign exchange transactions, acting as advisor 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 objectives are 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 objective.
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 Section 1, subs 1 and 2, Book 2 of the Dutch 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 are entities:
– half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to at 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 at 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 at 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 at 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 toward the company are guaranteed directly or indirectly by one or more of the bodies referred to at 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 are understood to include non-guaranteed obligations resulting from pre-financing or other financing which, after novation, will create obligations that will be guaranteed by one or more of such bodies on the basis of a scheme, bye-law or law adopted by one or more of such bodies;
and/or
– that execute a part of the governmental function on the basis of a scheme, bye-law or law adopted by one or more of the bodies referred to at a, b and c. ■

7 Annexes

A BNG Bank's subsidiaries

BNG GEBIEDSONTWIKKELING BV 100%

Dr. Kuyperstraat 12
2514 BB The Hague

MANAGEMENT BOARD

G.C.A. RODEWIJK

P.O. Box 16075
2500 BB The Hague
Tel. +31 (0)70 3119 900
info@bnggo.nl

Objective:
To directly or indirectly provide (venture) capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities.

BNG VERMOGENSBEHEER BV 100%

Koninginnegracht 2
2514 AA The Hague

MANAGEMENT BOARD
J.L.S.M. HILLEN
J.J.M. DE WIT

P.O. Box 16450
2500 BL The Hague
Tel. +31 (0)70 3750 245
info@bngvb.nl

Objective:
To provide and develop specialized financial services in the fields of securities brokerage, consultancy, the management of investment funds with a Fido hallmark and customized asset management to and for public authorities and public sector institutions.

HYPOTHEEKFONDS VOOR OVERHEIDS-PERSONEEL BV (HVO) 100%

Koninginnegracht 2
2514 AA The Hague

MANAGEMENT BOARD
MRS. P.J.E. BIERINGA
O. LABE

P.O. Box 30305
2500 GH The Hague
Tel. +31 (0)70 3750 619
bms@bngbank.nl

Objective:
The financing of mortgage loans taken out by civil servants in the employ of an affiliated public or municipal organization with which a cooperation agreement has been reached. ■

B Dutch Banking Code Reference Table

The overview below indicates which part of the annual report contains information regarding the implementation of each principle of the Dutch Banking Code.

DUTCH BANKING CODE PRINCIPLE	ACCOUNTING INFORMATION
SUPERVISORY BOARD	
2.1.1 to 2.2.2	Report of the Supervisory Board
EXECUTIVE BOARD	
3.1.1 to 3.1.8	Report of the Supervisory Board
3.1.6	Risk Section
3.2.1 to 3.2.4	Report of the Executive Board, BNG Bank CSR Policy, and BNG Bank 2012 GRI index
RISK MANAGEMENT	
4.1 to 4.3	Report of the Supervisory Board
4.4 to 4.5	Risk Section
AUDIT	
5.1	Corporate governance
5.2 to 5.6	Report of the Supervisory Board
REMUNERATION POLICY	
6.1.1 to 6.4.2	Report of the Supervisory Board
6.4.3 to 6.4.4	Corporate governance
6.4.5 to 6.4.6	Report of the Supervisory Board

C BNG Bank's key annual figures since 1915

Amounts in thousands of euros

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM BORROWINGS
1915	204	20	0	277
1920	384	84	38	295
1925	1,767	1,767	77	3,533
1930	1,983	1,983	140	15,410
1935	2,900	2,900	231	22,183
1940	3,061	3,061	208	12,883
1945	3,061	3,061	249	10,520
1950	3,105	3,105	454	86,543
1955	3,133	3,133	908	566,825
1960	40,939	7,012	4,538	2,740,538

Continued on next page

Continuation of previous page

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM BORROWINGS
1965	45,378	7,465	8,168	4,271,975
1970	52,775	14,862	16,427	8,251,283
1975	67,568	29,655	88,489	15,025,688
1980	104,551	66,638	246,586	18,809,227
1981	111,948	74,035	284,250	20,563,058
1982	119,344	81,431	362,754	22,826,819
1983	126,741	95,141	436,537	23,018,006
1984	138,152	106,552	513,225	22,843,430
1985	143,857	112,258	592,637	24,492,553
1986	149,562	117,963	674,429	26,984,054
1987	155,268	123,668	752,796	30,411,173
1988	155,268	123,668	824,995	31,874,574
1989	155,268	123,668	892,191	31,954,215
1990	158,008	126,409	967,389	32,161,023
1991	158,008	126,409	1,011,728	31,079,730
1992	158,008	126,409	1,083,265	29,746,188
1993	158,008	126,409	1,152,996	33,147,989
1994	158,008	126,409	1,224,994	35,943,094
1995	158,008	126,409	1,305,757	39,664,778
1996	158,008	126,409	1,399,815	41,834,574
1997	158,008	126,409	1,547,432	43,497,010

Continued on next page

Continuation of previous page

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM BORROWINGS
1998	158,008	126,420	1,679,379	45,401,721
1999	158,008	126,420	1,860,763	47,667,792
2000	158,008	126,420	2,075,272	49,286,388
2001	139,227	139,227	2,139,103	52,564,243
2002	139,227	139,227	2,194,764	55,448,477
2003	139,227	139,227	2,159,527	58,671,294
2004	139,227	139,227	2,330,805	64,067,450
2005	139,227	139,227	2,832,809	72,647,410
2006	139,227	139,227	2,336,965	71,207,875
2007	139,227	139,227	1,815,926	69,039,722
2008	139,227	139,227	1,759,853	80,032,181
2009	139,227	139,227	1,974,507	82,638,729
2010	139,227	139,227	1,991,578	87,314,051
2011	139,227	139,227	1,693,749	95,884,733
2012	139,227	139,227	2,517,766	100,414,585

Amounts in thousands of euros

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
1915	57	0	653	2
1920	538	0	257	42
1925	5,149	3,511	3,553	155
1930	17,065	5,722	5,094	187
1935	24,815	7,633	3,311	322
1940	15,877	8,518	4,415	246
1945	13,384	22,262	9,101	232
1950	90,807	53,777	24,427	532
1955	572,623	66,767	47,818	832
1960	2,779,127	71,720	96,116	1,037
1965	4,301,094	281,075	101,298	2,027
1970	8,413,856	438,774	99,466	6,587
1975	15,229,918	600,179	195,233	28,850
1980	19,166,544	1,294,919	141,613	70,489
1981	20,999,362	1,304,916	194,746	76,847
1982	23,241,661	1,026,584	290,715	97,953
1983	23,406,090	963,080	417,796	91,597
1984	22,925,876	1,161,707	473,164	97,678
1985	24,655,812	1,254,453	619,518	100,996
1986	27,188,156	1,805,989	516,630	104,065
1987	30,600,152	1,686,531	442,082	101,762
1988	32,296,882	1,352,895	667,849	109,288

Continued on next page

* Since 2005 after withholding of corporate income tax. Because BNG Bank adopted the International Financial Reporting Standards (IFRS) for the financial statements as of 1 January 2005 the figures from 2005 onward are not completely comparable with earlier years.

Continuation of previous page

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
1989	32,489,741	1,666,878	908,875	104,285
1990	32,732,015	2,261,428	919,473	110,461
1991	33,724,611	2,181,086	1,417,843	86,041
1992	34,455,423	1,358,717	2,213,487	118,293
1993	37,818,157	1,483,964	2,625,294	115,437
1994	38,071,862	2,735,454	2,590,526	128,649
1995	40,761,488	2,137,899	2,587,148	137,191
1996	41,870,931	1,933,578	1,902,931	143,444
1997	43,335,947	2,656,811	1,597,669	153,752
1998	45,466,657	2,797,481	1,357,663	169,350
1999	47,171,383	3,082,766	2,111,858	230,081
2000	54,623,328	3,110,394	3,779,636	230,904
2001	59,446,888	3,994,986	8,504,975	249,000
2002	67,046,644	4,792,642	10,115,715	283,127
2003	72,859,621	4,558,707	12,789,138	303,627
2004	73,914,244	5,070,251	11,284,235	300,797
2005	76,019,286	6,947,752	7,155,594	310,833
2006	77,992,839	6,984,629	9,169,497	198,694
2007	78,826,312	10,349,820	13,658,775	195,418
2008	75,741,198	11,079,758	17,473,692	157,701
2009	77,915,557	9,939,636	17,721,605	277,589

Continued on next page

Continuation of previous page

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
2010	90,389,403	12,390,256	18,678,225	256,763
2011	97,577,785	15,343,347	23,556,036	256,389
2012	99,392,923	14,858,192	19,069,006	331,912

D BNG Bank's shareholders as at 31 December 2012

55,690,720 SHARES	
Aa en Hunze	52,728
Aalburg	17,550
Aalsmeer	25,857
Aalten	19,305
Achtkarspelen	87,711
Alblasserdam	9,477
Albrandswaard	3,510
Alkmaar	175,890
Almelo	174,525
Almere	3,432
Alphen aan den Rijn	95,238
Ameland	3,120
Amersfoort	272,220
Amstelveen	143,520
Amsterdam	617,058
Apeldoorn	132,093
Appingedam	23,751
Arnhem	496,470
Assen	85,301
Asten	13,000
Baarle-Nassau	3,510
Baarn	46,800
Barendrecht	32,097
Barneveld	24,570
Bedum	5,265
Beek	11,544
Beemster	7,020
Beesel	66,300
Bellingwedde	12,597
Bergambacht	3,510
Bergeijk	80,886
Bergen (L)	10,530
Bergen (N.H.)	149,994
Bergen op Zoom	41,067
Berkelland	305,877
Bernheze	21,060
Bernisse	13,260

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Best	24,570
Beuningen	14,040
Beverwijk	85,605
Binnenmaas	105,495
Bladel	62,790
Blaricum	5,967
Bloemendaal	21,060
Boarnsterhim	30,732
Bodegraven-Reeuwijk	76,830
Borger-Odoorn	80,340
Borne	107,172
Borsele	39,273
Boskoop	18,720
Boxmeer	38,660
Boxtel	53,385
Breda	257,439
Brielle	24,414
Bronckhorst	72,384
Brummen	702
Brunssum	86,658
Bunnik	3,000
Buren	23,953
Bussum	97,188
Capelle aan den IJssel	7,722
Castricum	40,872
Coevorden	94,926
Cranendonck	5,000
Cromstrijen	7,020
Cuijk	32,253
Culemborg	8,775
Dalfsen	33,735
Dantumadiel	12,285
De Bilt	218,673
De Marne	10,530
De Ronde Venen	37,323
De Wolden	31,122
Delft	47,385
Delfzijl	39,156
Den Haag	1,275,456
Den Helder	211,731
Deurne	99,840
Deventer	292,313
Diemen	8,775
Dinkelland	16,934
Dirksland	19,188
Doesburg	27,612
Doetinchem	62,634
Dongen	23,510
Dongeradeel	76,323
Dordrecht	233,142
Drechterland	15,756

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Drenthe (province)	87,750
Drimmelen	36,426
Druten	9,477
Duiven	3,510
Echt-Susteren	21,411
Edam-Volendam	29,484
Ede	108,420
Eemsmond	21,060
Eersel	121,021
Eijsden-Margraten	52,455
Eindhoven	171,600
Elburg	76,830
Emmen	58,266
Enkhuizen	130,650
Enschede	200,343
Epe	60,879
Ermelo	75,075
Etten-Leur	9,828
Ferwerderadiel	5,967
Flevoland (province)	75,250
Franekeradeel	34,554
Friesland (province)	75,250
Gaasterlan-Sleat	6,669
Geertruidenberg	133,653
Gelderland (province)	87,750
Geldermalsen	28,665
Geldrop-Mierlo	30,186
Gemert-Bakel	45,474
Gennep	10,530
Giessenlanden	25,935
Gilze en Rijen	10,179
Goedereede	34,593
Goes	96,369
Goirle	12,636
Gorinchem	96,330
Gouda	82,446
Graafstroom	21,060
Graft-De Rijp	7,020
Groesbeek	60,840
Groningen (municipality)	329,199
Groningen (province)	75,250
Grootegast	9,750
Gulpen-Wittem	26,040
Haaksbergen	35,958
Haaren	11,278
Haarlem	230,295
Haarlemmerliede en Spaarnwoude	62,790
Haarlemmermeer	60,372
Halderberge	43,524

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Hardenberg	64,935
Harderwijk	58,968
Hardinxveld-Giessendam	31,356
Haren	9,126
Harenkarspel	38,376
Harlingen	31,200
Hattem	30,030
Heemskerk	7,722
Heemstede	122,421
Heerde	9,126
Heerenveen	56,355
Heerhugowaard	9,789
Heerlen	424,827
Heeze-Leende	10,020
Heiloo	36,000
Hellendoorn	24,180
Hellevoetsluis	6,240
Helmond	52,650
Hendrik Ido Ambacht	25,818
Hengelo	174,486
's-Hertogenbosch	139,659
Het Bildt	73,905
Heumen	151,515
Heusden	44,499
Hillegom	49,686
Hilvarenbeek	23,510
Hilversum	120,939
Hof van Twente	157,326
Hollands Kroon	60,294
Hoogeveen	17,550
Hoogezand-Sappemeer	31,161
Hoogheemraadschap Hollands Noorderkwartier	17,355
Hoorn	46,098
Horst aan de Maas	113,108
Houten	6,240
Huizen	85,956
Hulst	17,472
IJsselstein	4,563
Kaag en Braassem	121,719
Kampen	100,893
Kapelle	53,040
Katwijk	144,066
Kerkrade	183,300
Koggenland	29,016
Kollumerland en Nieuwkruisland	22,347
Korendijk	29,718
Krimpen aan den IJssel	32,799
Laarbeek	20,709
Landerd	29,094

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Landgraaf	41,301
Landsmeer	24,453
Langedijk	6,318
Lansingerland	15,015
Leek	28,041
Leerdam	17,550
Leeuwarden	116,142
Leeuwarderadeel	72,150
Leiden	347,646
Leiderdorp	97,968
Leidschendam-Voorburg	203,190
Lelystad	5,000
Lemsterland	31,746
Leudal	143,052
Liesveld	13,962
Limburg (province)	156,000
Lingewaal	17,550
Lingewaard	19,305
Lisse	18,252
Littenseradiel	8,736
Lochem	60,138
Loon op Zand	41,886
Lopik	26,442
Loppersum	24,102
Losser	17,550
Maasdonk	10,530
Maasdriel	20,770
Maasgouw	72,150
Maassluis	61,035
Maastricht	347,334
Marum	7,020
Medemblik	13,650
Meerssen	13,689
Menameradiel	24,375
Menterwolde	38,688
Meppel	18,915
Middelburg	49,296
Middelharnis	15,600
Midden-Delfland	48,594
Midden-Drenthe	60,138
Mill en St. Hubert	5,265
Millingen aan de Rijn	8,736
Moerdijk	27,027
Montferland	19,756
Montfoort	12,480
Mook en Middelaar	123,708
Muiden	3,510
Neder-Betuwe	18,246
Nederlek	33,150
Nederweert	14,040
Neerijnen	14,040

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Nieuwegein	80,184
Nieuwkoop	36,348
Nijkerk	32,370
Nijmegen	193,479
Noord-Beveland	6,520
Noord-Brabant (province)	40,000
Noordenveld	30,771
Noord-Holland (province)	610,350
Noordoostpolder	19,656
Noordwijk	12,636
Noordwijkerhout	8,775
Nuenen, Gerwen en Nederwetten	1,755
Nunspeet	75,075
Nuth	11,232
Oegstgeest	46,059
Oirschot	8,775
Oisterwijk	7,845
Oldambt	181,116
Oldebroek	9,750
Oldenzaal	17,550
Olst-Wijhe	18,252
Ommen	79,638
Onderbanken	8,775
Oost Gelre	51,363
Oosterhout	35,100
Oostflakkee	3,120
Ooststellingwerf	18,720
Oostzaan	24,765
Opmeer	19,188
Opsterland	66,651
Oss	60,645
Oud-Beijerland	5,265
Oude IJsselstreek	161,460
Ouder-Amstel	4,914
Ouderkerk	3,510
Oudewater	27,612
Overbetuwe	21,762
Overijssel (province)	87,750
Papendrecht	6,318
Peel en Maas	63,687
Pekela	26,130
Pijnacker-Nootdorp	57,564
Purmerend	7,020
Putten	10,530
Raalte	25,987
Reimerswaal	15,990
Renkum	89,739
Reusel-De Mierden	10,530
Rheden	186,966
Rhenen	61,035

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Ridderkerk	89,115
Rijnwaarden	4,914
Rijnwoude	142,896
Rijssen-Holten	304,746
Rijswijk	165,945
Roerdalen	17,199
Roermond	34,749
Roosendaal	56,862
Rotterdam	321,555
Rucphen	19,656
Schagen	13,611
Schermer	7,020
Scherpenzeel	3,510
Schiedam	326,352
Schiermonnikoog	7,020
Schijndel	28,782
Schinnen	7,020
Schouwen-Duiveland	23,790
Simpelveld	6,630
Sint-Anthonis	12,285
Sint-Michielsgestel	21,060
Sint-Oedenrode	64,857
Sittard-Geleen	175,266
Skarsterlan	68,484
Sliedrecht	31,200
Slochteren	20,124
Sluis	10,140
Smallingerland	110,292
Soest	123,825
Someren	15,444
Son en Breugel	29,991
Spijkenisse	7,020
Staat der Nederlanden	27,845,360
Stadskanaal	27,339
Staphorst	30,030
Stede Broec	17,823
Steenbergen	11,583
Steenwijkerland	129,675
Stein	19,266
Stichtse Vecht	29,523
Strijen	6,240
Sudwest Fryslan	313,677
Ten Boer	3,510
Terneuzen	45,474
Terschelling	3,510
Texel	7,371
Teylingen	57,681
Tholen	33,696
Tiel	36,803
Tilburg	71,786
Tubbergen	30,000

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Twenterand	23,868
Tynaarlo	43,243
Tytsjerksteradiel	48,945
Ubbergen	33,540
Uden	17,550
Uitgeest	3,510
Uithoorn	54,522
Urk	3,861
Utrecht (municipality)	763,074
Utrecht (province)	87,750
Utrechtse Heuvelrug	201,669
Vaals	17,121
Valkenburg aan de Geul	21,060
Valkenswaard	12,987
Veendam	86,190
Veenendaal	86,970
Veere	7,020
Veghel	26,598
Veldhoven	35,100
Velsen	280,410
Venlo	106,026
Venray	54,202
Vianen	22,698
Vlaardingen	198,198
Vlagtwedde	16,458
Vlieland	3,510
Vlissingen	70,356
Vlist	10,530
Voerendaal	11,232
Voorschoten	41,184
Voorst	112,983
Vught	15,795
Waalre	6,318
Waalwijk	29,133
Waddinxveen	17,823
Wageningen	50,310
Wassenaar	106,392
Waterland	14,040
Weert	41,379
Weesp	33,501
Werkendam	9,828
Westerveld	51,987
Westervoort	3,510
Westland	301,860
Weststellingwerf	58,071
Westvoorne	66,963
Wierden	21,060
Wijchen	11,193
Wijdemeren	33,930
Wijk bij Duurstede	23,751

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Winsum	10,140
Winterswijk	17,199
Woensdrecht	11,232
Woerden	123,201
Wormerland	36,660
Woudenberg	3,510
Woudrichem	10,530
Zaanstad	416,286
Zaltbommel	3,861
Zandvoort	56,862
Zederik	43,017
Zeevang	12,246
Zeewolde	78
Zeist	192,075
Zevenaar	8,020
Zijpe	3,510
Zoetermeer	3,510
Zoeterwoude	26,871
Zuid-Holland (province)	610,350
Zuidhorn	10,140
Zuidplas	54,328
Zundert	104,949
Zutphen	95,940
Zwartewaterland	23,712
Zwijndrecht	47,541
Zwolle	149,097

COLOPHON

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