Annual Report 2011

Profile

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

BNG's mission is translated into the following strategic objectives: to retain 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 a competitive funding position, as well as managing the bank's business as effectively and efficiently as possible, are necessary prerequisites in this endeavor.

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

Corporate Social Responsibility is intrinsic to BNG's core activities. The Social Annual Report – which is presented separately – constitutes an integral part of the Annual Report. With this report and the information on the company's website, BNG strives for transparency in its management and activities. As of 2012, the financial and social annual reports will be fully integrated.

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

Subsequent to the State, BNG 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 Financial Strength Rating (A) by Moody's.

Selected financial data

Amounts in millions of euros

	2011	2010	2009	2008	2007	2006
Balance sheet total	136,460	118,533	104,496	101,365	92,602	90,098
Loans and advances	90,775	86,851	79,305	75,699	66,037	64,994
– of which granted to or guaranteed by public authorities	81,766	75,247	67,164	64,782	60,219	60,059
– of which reclassified from the Financial assets available-for-sale item	3,219	3,724	4,226	4,569	–	–
Equity excluding unrealized revaluations [1]	2,450	2,321	2,204	2,008	1,949	2,356
Unrealized revaluation [2]	(553)	(62)	49	(29)	104	220
Equity per share (in euros) [1]	44.00	41.68	39.58	36.06	35.00	42.31
Equity as a percentage of total assets [1]	1.8%	2.0%	2.1%	2.0%	2.1%	2.6%
BIS Tier 1 ratio [1]	20%	20%	19%	18%	18%	24%
BIS ratio [1]	21%	20%	20%	20%	20%	26%
Profit before tax	339	337	350	182	238	255
Net profit	256	257	278	158	195	199
Profit per share (in euros)	4.60	4.61	4.98	2.84	3.50	3.57
Proposed dividend	64	128	139	79	97	99
Dividend as a percentage of consolidated net profit	25%	50%	50%	50%	50%	50%
Dividend per share (in euros)	1.15	2.30	2.49	1.42	1.75	1.78
Additional payment [3]	–	–	–	–	500	500
Additional payment per share (in euros) [3]	–	–	–	–	8.98	8.98
Number of staff (in FTEs) at year-end	278	276	277	274	266	368
– of which employed by subsidiaries	41	45	58	51	52	42

[1] Excluding revaluation reserve and cash flow hedge reserve.

[2] This includes EUR 271 million of unrealized negative revaluation of Financial assets available-for-sale. The revaluation reserve's negative development in 2011 is primarily caused by increased credit and liquidity spreads on investments in the peripheral euro countries. The bank does not expect these reductions in value to be permanent and does not deem an impairment necessary.
The remainder of the unrealized revaluation, EUR 282 million negative, concerns the cash flow hedge reserve and relates to the changes in value of cross currency interest rate swaps that the bank uses to hedge the foreign exchange risks from funding in foreign currencies. The bank is fully economically hedged, but the prevailing IFRS accounting rules compel to recognize these value changes in the financial statements. This is strictly a so-called accounting mismatch. 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 loss of equity. Please refer to the Report of the Executive Board – Financial review; The balance sheet – and note 31 of the consolidated financial statements for further reference.

[3] In December 2007 and December 2006, additional payments of EUR 500 million each (EUR 8.98 per share) were made to shareholders. The payments were charged to the reserves.

Contents

Organization 5

Report of the Supervisory Board 9

Report of the Executive Board 15
Developments 17
Strategy 22
Products and services 23
Funding 25
Financial review 26
Staff and organization 28
Corporate governance 29
Outlook for 2012 31

Consolidated financial statements 33
Consolidated balance sheet as at 31 December 2011 34
Consolidated income statement 2011 35
Consolidated statement of comprehensive income 2011 36
Consolidated cash flow statement 2011 37
Consolidated statement of changes in equity 2011 38
Accounting principles for the consolidated financial statements 39
Notes to the consolidated financial statements 45
– Risk Section 57

Company financial statements 91
Company balance sheet as at 31 December 2011 92
Company income statement 2011 93
Company statement of comprehensive income 2011 94
Company cash flow statement 2011 95
Company statement of changes in equity 2011 96
Accounting principles for the company financial statements 97
Notes to the company financial statements 98

Other information 107
Independent auditor's report 108
Stipulations of the Articles of Association concerning profit appropriation 109
Proposed profit appropriation 109
BNG's objectives as defined in the Articles of Association 110

Annexes 111
A BNG Subsidiaries 112
B Reference table – Dutch Banking Code 113
C BNG key annual figures since 1915 114
D Shareholders of BNG as at 31-12-2011 116

Organization

Organization [4]

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

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 2012.
|5 Each member of the Executive Board is responsible for several 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 of the organizational structure can be found on bng.nl. The organization of the risk management function is included in the risk section of the annual report.

Supervisory Board [6]

H.O.C.R. Ruding [7][8] [1939]
Chairman
Former Vice-chairman of the Executive Board of Citicorp/Citibank, New York; former Minister of Finance

Mrs Y.C.M.T. van Rooy [7][8] [1951]
Vice-chairman as well as Secretary
Chairman of the Board of Governors of the University of Utrecht

R.J.N. Abrahamsen [9] [1938]
Former Managing Director and Chief Financial Officer of KLM Royal Dutch Airlines

H.H. Apotheker [10] [1950]
Acting Mayor of the municipality of Súdwest-Fryslân

Mrs H.G.O.M. Berkers [9][10] [1955]
Former member of the Executive Board of Catharina Hospital in Eindhoven

Mrs S.M. Dekker [10] [1942]
Former Minister of Housing, Spatial Planning and the Environment

W.M. van den Goorbergh [7][8][9] [1948]
Former Vice-chairman of the Executive Board of Rabobank Nederland

R.J.J.M. Pans [7][8] [1952]
General Director of the Association of Dutch Municipalities

A.G.J.M. Rombouts [10] [1951]
Acting Mayor of the municipality of 's-Hertogenbosch

|6 BNG 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 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 bng.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.
|7 Member of the Selection and Appointment Committee as referred to in Article 16 of the Articles of Association.
|8 Member of the Remuneration Committee as referred to in Article 16 of the Articles of Association.
|9 Member of the Audit & Risk Committee as referred to in Article 16 of the Articles of Association.
|10 Member of the Market Strategy Committee as referred to in Article 16 of the Articles of Association.

Employees' Council

Mrs S.P.D. Huizer [1968]
Chairman

J.H. Boom [1951]
Secretary

L.H.J.M. Tulfer [1950]
Vice-chairman

G.J. van Duffelen [1978]

Mrs F.N. Elderhorst-Brussee [1976]

P.J. van Emmerik [1964]

M.P.H. Erens [1968]

M.W.J. Oostendorp [1963]

F.W.A. Zwetsloot [1971]

Details of Members of the Executive Board [11]

C. van Eykelenburg
Appointed to the Executive Board on 1 January 2005 and appointed as Chairman on 15 October 2008. His appointment as Chairman of the Executive Board is for a four-year period. This appointment can be extended.
In connection with his position with BNG, Mr Van Eykelenburg is a board member and treasurer of the NVB (Dutch Banking Association).
Mr Van Eykelenburg is also Chairman of the Supervisory Board of GITP BV [12], Chairman of the Board of the W.F. Hermans Institute, member of the Internal Supervision Committee of the Shell Pension Fund and Chairman of the Board of Vereniging Rijksgesubsidieerde Musea.

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, 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 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. His appointment as a Member of the Executive Board is for a four-year period. This appointment can be extended.
In connection with his position with BNG, 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 subsidiaries Hypotheekfonds voor Overheidspersoneel BV, BNG Gebiedsontwikkeling BV and BNG Vermogensbeheer BV.
In addition, Mr Reichardt is a member of the National Renovation Platform.

|11 Duties and responsibilities of (the members of) the Executive Board are described in the Executive Board Regulation, which is published on bng.nl.
|12 BNG is a large corporation in the letter of the Management and Supervision Act, which is expected to come into effect from 1 July 2012. Said additional position is relevant under this Act.

Details of Members of the Supervisory Board [13] [14]

H.O.C.R. Ruding
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 April 2008 and eligible for reappointment in 2012.

Mrs Y.C.M.T. van Rooy
Vice-chairman as well as Secretary
Principal position: Chairman of the Board of Governors of the University of Utrecht
Appointed on 12 May 2004, reappointed on 28 April 2008 and eligible for reappointment in 2012.

R.J.N. Abrahamsen
Former Managing Director and Chief Financial Officer of KLM Royal Dutch Airlines
Appointed on 17 May 2006, reappointed on 26 April 2010 and eligible for reappointment in 2014.
Besides being a member of the Supervisory Board of BNG, Mr Abrahamsen is also a member of the Supervisory Boards of Fluor Daniel BV and PostNL NV [15].

H.H. Apotheker
Principal position: 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, Mr Apotheker is also a member of the Supervisory Board of PPG Industries Fiber Glass BV.

Mrs H.G.O.M. Berkers
Former member of the Executive Board of Catharina Hospital in Eindhoven
Appointed on 27 April 2009 and eligible for reappointment in 2013.
Besides being a member of the Supervisory Board of BNG, Mrs Berkers is also a member of the Supervisory Boards of Stichting ORO and Proteion Thuis.

Mrs S.M. Dekker
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, Mrs Dekker is also a member of the Supervisory Board of DHV Groep BV.

W.M. van den Goorbergh
Former 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, Mr Van den Goorbergh is also Chairman of the Supervisory Boards of De Welten Groep Holding BV, NIBC Bank NV and DELA, member of the Supervisory Board of Mediq NV [15] and Vice-chairman of the Board of the Catholic University of Nijmegen.

R.J.J.M. Pans
Principal position: General Director of the Association of Dutch Municipalities
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, Mr Pans is also a member of the Supervisory Board of Stichting Coloriet.

A.G.J.M. Rombouts
Principal position: Acting Mayor of the municipality of 's-Hertogenbosch
Appointed on 15 May 2000, reappointed on 12 May 2004, reappointed for the second time on 28 April 2008 and due to retire in 2012.

|13 Duties and responsibilities of (the members of) the Supervisory Board are described in the Supervisory Board Regulation, which is published on bng.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's Supervisory Board have Dutch nationality.
|14 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 bng.nl.
|15 Additional positions with publicly listed companies.

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 2011. The financial statements for 2011 have been given an unqualified opinion by Ernst & Young Accountants LLP. We propose to shareholders that they approve 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 1.15 per share with a nominal value of EUR 2.50 will be distributed for the 2011 financial year (2010: EUR 2.30).

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 connection with the retirement by rotation of Mrs S.M. Dekker, Mr W.M. van de Goorbergh and Mr R.J.J.M. Pans, the Board drew up individual profiles in 2010, which are in line with the framework of the profile of the entire Board. Based on these profiles, assessment interviews were held with the persons involved. The Board decided to nominate them for reappointment. On 26 April 2011 they were reappointed by the General Meeting of Shareholders. On the same date the shareholders took note of the individual profiles drawn up in connection with the announced retirement of Mr A.G.J.M. Rombouts and the retirement by rotation of Mrs Y.C.M.T. van Rooy and Mr H.O.C.R. Ruding in 2012. During the annual assessment of its functioning, the Supervisory Board concluded that with the reappointment of the recommended candidates, the Board and the Audit & Risk Committee would continue to meet the desired profile and that there would be sufficient members to enable the Board and its Committees to function properly.

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

Remuneration of the Supervisory Board
On 26 April 2011, the General Meeting of Shareholders approved a moderate adjustment of the remuneration of the members of the Supervisory Board. The adjusted remuneration policy applies to the period from 1 January 2012 until 31 December 2016.

Permanent education of the Supervisory Board
In 2011, the permanent education program for the entire Supervisory Board included a component covering risks and risk management. The speakers were Mr D. Korf (Partner at KPMG and Chairman of the Sector Commission Banks of the NBA) and Mr J.C. Reichardt (member of the Executive Board of BNG). A meeting on IFRS was arranged for the members with specific skills and experience in the financial sector, which featured an update on IFRS given by Mr F.M. van der Lof (Partner at Ernst & Young Accountants LLP) and Mr Reichardt. For the other members of the Board, Mr J. Kragt (Chief Risk Officer at PGGM Investments) and Mr O. Labe (Managing Director Treasury at BNG) arranged a meeting about liquidity risk and liquidity management. Each of the Board members participated in the permanent education program. Three members of the Board used the opportunity to indicate individual training wishes. They participated in parts of BNG's internally organized program aimed at the enhancement of risk awareness within the bank.
The effectiveness of the program was evaluated by the Board, which concluded that the 2011 program achieved its objective and that the set-up of the program should remain the same in 2012. The Board also decided which of the topics mentioned in the Dutch Banking Code should be handled in 2012 and 2013.

Performance of the Supervisory Board
The Supervisory Board evaluates its own performance annually. In the year under review, the Board worked at the points of interest following from the 2010 evaluation, specifically the guarantee of the presence of sufficient financial knowledge in the Board, the diversity in age and the significance of permanent education in individual areas. The 2011 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 there are no points of interest with respect to its functioning that require the Board's special attention in the next period.

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 2011.

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 tailor-made study trips, one on the topic of 'Circle Brussels' and the other on 'Post-crisis financial supervision and regulation'. A second member of the Executive Board participated in the conference on 'Redefining Capital

Markets', organized by The Economist, and a third member participated in the National Asset-Liability Management Congress, as well as in two meetings 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).

Reporting on Corporate Social Responsibility
The bank's policy on Corporate Social Responsibility (CSR) is subject to approval by the Supervisory Board. In 2011, BNG published a separate Social Annual Report for the first time on the reporting year 2010, illustrating BNG's role in society. The Board concluded that this meets BNG's objective of transparency on the bank's accomplishments and ambitions in the area of durability. As of 2011, CSR has featured in the Executive Board's policy on variable remuneration.

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 decision-making 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'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, the country and sector analyses and the reporting on the composition of the liquidity portfolio. Furthermore, the Audit & Risk Committee discussed the 2010 Compliance Report, the 2010 Incidents Report, the 2012 Compliance Program, the 2012 IAD Annual Plan and the external auditor's audit plan regarding BNG's 2011 annual financial statements, the external auditor's four-yearly evaluation and the tripartite talks between the Dutch central bank, BNG and the external auditor. These topics were also discussed by the plenary Board. As a rule, the Audit & Risk Committee consults 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 2011.

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 2011 and the implementation of the 2011 Regulation on Controlled Remuneration Policies (Financial Supervision Act).
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 four 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 2010, leading to the determination of the Executive Board's remuneration, the division of tasks within the Executive Board, the additional positions held by members of the Supervisory and Executive Board, and the permanent education program for the Supervisory and Executive Board.

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's client groups and the adequacy of the existing and potential services to these client groups. To that end, the committee prepared the discussion in the plenary Supervisory Board meeting of the commercial aspects of the long-term plan, as well as the decision-making on the aspects of Corporate Social Responsibility relevant to BNG and the commercial aspects of the 2012 Annual Plan.

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 evaluation of 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, the preparation of the General Meeting of Shareholders, the progress of the credit process, the change in BNG's power of attorney structure and the Basel III migration plan. The plenary Board approved the long-term plan, the 2012 Annual Plan and budget, the risk appetite and the changed senior management remuneration policy.
The Board discussed the highest variable remunerations within the bank and concluded that they were in accordance with BNG's remuneration policy. The Chairman of the Board

consulted with the Minister of Finance several times on topics relevant to BNG.

Remuneration policy for the Executive Board members

The remuneration policy for the Executive Board was adopted by the General Meeting of Shareholders on 27 April 2009 and is published in its entirety on bng.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. In accordance with these frameworks, it was determined that the sum of fixed and variable remunerations for new executives was maximized at EUR 310,000 for 2009. From 2010 onward, this upper remuneration limit is raised annually in line with increases under the collective labor agreement. Deviation from this upper limit is only possible with the approval of the shareholders.
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. 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 objectives are met 'on target', 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 strives for market conformable terms of employment and remuneration for its Executive Board. Market conformable means determined through comparison with what is considered normal in the sector of the Dutch labor market relevant to BNG. 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 [16]. In 2012, the policy adopted by the General Meeting of Shareholders in 2009 will be reviewed in light of the application of the Regulation on Controlled Remuneration Policies (pursuant to the 2011 Financial Supervision Act).

Realization of the 2011 variable remuneration targets

With respect to the variable remuneration for 2011, market share targets for lending to local governments, housing associations and healthcare institutions (weighting factor of 15%) were set, as well as a target for lending in other sectors (weighting factor of 10%) as laid down in the 2011 Annual Plan. In addition, there was a return target (weighting factor of 40%). The qualitative targets (weighting factor of 35%) included agreements on the implementation of a new risk management application, the realization of a CSR target and the further embedding of the Dutch Banking code within the BNG organization. Total costs should remain within the budget set for 2011.
Following the Selection and Appointment Committee's advice, the Supervisory Board decided that the 2011 variable remuneration targets were met by the Executive Board and a 93% pay-out percentage should be extended to each of the Executive Board members (2010: 98%). 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 2011 remuneration policy and outlook for the coming years

The current executives were appointed prior to 1 January 2009. Their employment contracts are respected. Taking into account the declared pay-out percentage for the 2011 variable remuneration, the result of the 2011 remuneration policy is set out in the table on page 13.

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 2011 variable remuneration (33%) falls within the pre-approved range of between 0% and 35% of the fixed remuneration. The fixed remuneration of the current members will remain unchanged in the coming period (with the exception of increases under the collective labor agreement), as will the ratio between fixed and variable remuneration.

Variable remuneration targets for 2012

BNG's mission is translated into the following strategic objectives: retaining substantial market shares in the Dutch public and semi-public domain and achieving a reasonable return for shareholders. The 2012 variable remuneration targets have been set in line with these objectives. For 2012, a market share target (weighting factor of 10%) and a margin target (weighting factor of 10%) have been set for lending to the municipal, housing and healthcare sectors, as well as a target (weighting factor of 10%) for the lending in other sectors as laid down in the 2012 Annual Plan. In addition, there is a return target (weighting factor of 40%). Further to the quantitative targets, qualitative targets have also been set

|16 The reference group consists of: AFM, Agentschap Financiën, DNB, FMO, DUO, NWB, SVB, UWV, councillors of large cities, AEGON, APG, Cordares, De Lage Landen, Delta Lloyd Groep, Friesland Bank, ING Group, NIBC, PGGM, Rabobank, Robeco, SNS Reaal, Triodos Bank and Van Lanschot.

Remuneration of Executive Board members (amounts in thousands of euros)

	Fixed remuneration		Variable remuneration*		Total		Pension contributions	
	2011	2010	2011	2010	2011	2010	2011	2010
C. van Eykelenburg	446	439	72	75	518	514	138	140
J.J.A. Leenaars	366	360	54	56	420	416	116	116
J.C. Reichardt	354	312	57	53	411	365	58	51
	1,166	**1,111**	**183**	**184**	**1,349**	**1,295**	**312**	**307**

* 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's long-term continuity.

(weighting factor of 30%). For 2012, these targets include agreements on fulfilling new reporting obligations following from Basel III and the CRD IV regulations, implementing a new collateral security administration and maintaining a B+ application level for social reporting within the Global Reporting Initiative framework. Total costs should remain within the budget set for 2012.
In early 2013, the 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 case of a pay-out percentage of 0%, no variable remuneration will be paid. In case of a 100% pay-out percentage, the variable remuneration for 2012 will amount to 35% 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's long-term continuity.

Contact with the Employees' Council
The Supervisory Board was represented at three of the five consultative meetings between the Executive Board and the Employees' Council. Once again, a theme meeting was organized in 2011 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 2011. 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
Y.C.M.T. van Rooy, Secretary

The Hague, 1 March 2012

Report of the Executive Board

BNG maintains its stable course despite the continuing turmoil in the international capital markets. In 2011 the bank achieved almost all of its objectives. In addition to maintaining very high market shares in its most important client segments, the bank made a more than reasonable return for its shareholders.

BNG closes the year under review with a EUR 256 million net profit, down EUR 1 million compared to 2010. The net profit was positively influenced by a 13% increase in the interest result, mainly due to a rise in long-term lending and an improved return on the portfolio. The net profit development could not capitalize on this, however, since the result financial transactions was once again highly negative in 2011.

The debt crisis in the United States and Europe holds the world in its grip and this obviously has consequences for BNG. The uncertainty in the financial markets regarding a structural solution to the euro crisis has led to unprecedentedly high spreads for credit and liquidity risks for the majority of the marketable securities in the bank's portfolio. This negatively impacts those assets that are measured at fair value. As a result, the result financial transactions is EUR 89 million negative for the reporting period. The bank's top ratings were reconfirmed by Moody's, Fitch and S&P in 2011 and investors consider the bank to be one of the safest in the world. In line with their view of the creditworthiness of the Dutch State, S&P added a "negative outlook" to BNG's rating.

BNG is the bank for the social interest and offers specialized services at the lowest possible costs. The bank strives to be a reliable partner, to maintain its strong market position and to continue and, where possible, improve the relationship with its clients. The bank's very high market shares confirm the significance of BNG's role, especially during these tense times in the financial markets. This was illustrated by the fact that BNG serviced over 70% of demand from the bank's most important client segments. As expected, the volume of new long-term lending decreased in 2011 compared to 2010, falling 25% to EUR 12.3 billion. This returns the volume of new business to a more usual level, following the historically high level of 2010. Despite the decrease in new credit facilities, the total long-term lending portfolio to clients based on principal amounts increased by EUR 6.2 billion to EUR 80.2 billion. This was caused by, among other things, the payment in 2011 of loans that were already contracted in 2010.

For both refinancing and lending purposes, BNG raised a total of EUR 16.4 billion in long-term funding in 2011 (2010: EUR 18.2 billion). In the first half of 2011, BNG improved its liquidity profile by attracting funding with relatively long maturity. The second half of 2011 was marked by reduced activity in the international capital markets. As a result, the credit and liquidity spreads the bank pays on funding with longer maturities increased during the last two months of the year. The bank's creditworthiness has always allowed it to maintain an adequate liquidity profile.

BNG is carefully monitoring developments in legislation and regulation. The increasing regulatory pressure in reaction to the financial crisis is a point of attention. Nearly all of the proposals will increase, either directly or indirectly, the burden on banks. A relatively small organization such as BNG will be severely affected by this, both financially and operationally. The focus of the bank's concerns is particularly on the Basel Committee's plan to set a 3% lower limit on the leverage ratio from 2018 onward. This non-risk-weighted solvency ratio is by definition unfavorable to banks with balance sheets mainly comprised of assets with low credit risk. BNG composed a plan in the year under review to meet the minimum standard by late 2017 at the latest. It was concluded that the necessary growth in equity needs to be achieved by retaining a larger part of the profit, possibly supplemented by a limited issue of hybrid debt securities with equity characteristics.
In line with these developments and expectations at the end of 2011, a dividend pay-out of 25% of the net profit is proposed to the General Meeting of Shareholders. This represents a total of EUR 64 million or EUR 1.15 per share (2010: EUR 2.30).

The 2012 interest result is expected to increase slightly compared to that of the year under review. The development of the 2012 net result may deviate from the relatively favorable development of the interest result. Given the numerous uncertainties, the bank does not consider it wise to make a statement regarding the 2012 net profit.

Economic developments

Overall, 2011 saw positive global economic development despite a drop in growth during the second half of the year. Western economies saw the growth of economic activities tempered by various developments, including rising prices of raw materials, the natural disaster in Japan, and – more significantly – the escalating economic euro crisis.
These developments had little effect yet on the emerging economies. The Chinese economy, for example, grew by 9%, just slightly below the figure for 2010. Most countries saw a rise in inflation due to higher oil prices.

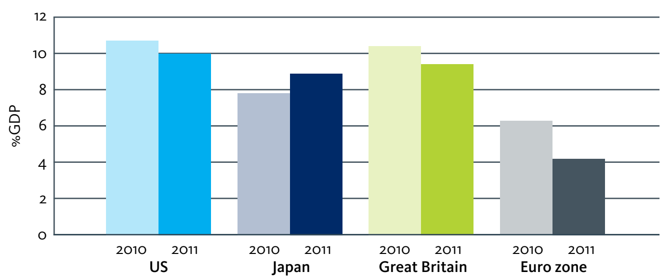
The US economic growth was nearly halved over the course of 2011 to approximately 1.7%. This decline was almost exclusively attributable to a drop in business inventories. Effective domestic demand continued to grow at a moderate pace. Businesses invested more in fixed assets, causing an improvement in employment figures. Consumption rose by more than 2%. Exports showed stronger growth despite a more modest rise in external demand. Inflation rose from 1.6% to 3.2%.
Foreign demand was the most significant driver for increased economic activity in the euro zone. Exports grew more than imports. This was mainly attributable to a drop in domestic demand within the euro zone. Private sector confidence suffered from an escalation of the euro crisis and the resulting divergence in interest rate developments. The region's overall economy grew by 1.5%, down slightly from 2010. Inflation rose from 1.6% to 2.7%. The euro countries' joint government deficit dropped in 2011, to slightly over 4% of GDP. This is considerably lower than figures for the US and other major western economies. Gross government debt figures for the euro zone as a whole are also relatively favorable in comparison with other major industrialized economies.

The individual euro countries experienced highly divergent economic development. The German economy showed continued strong growth. Unlike last year, the positive figures for 2011 were not solely based on exports, but also on consumption. France and the smaller northern euro countries managed to achieve small economic growth. By contrast, the southern euro countries saw a drop in economic activity. Not only did these countries benefit far less from growing global trade as a result of their weak competitive position, they also suffered the negative expenditure effects of government cutbacks. This was especially the case in Greece and Portugal, forcing these countries to seek liquidity assistance from the IMF and European Financial Stability Facility (EFSF) – the European emergency fund – this spring. Economic growth also lagged in Spain and Italy. The governments in both countries were forced to announce additional cutbacks in order to safeguard investor confidence and rule out the need for EFSF assistance. Ireland, which has also received loans from the emergency fund, was one of the few financially weak euro countries to see signs of economic recovery. Irish exports benefited from the country's considerably improved competitive position as a result of a reduction in wages.

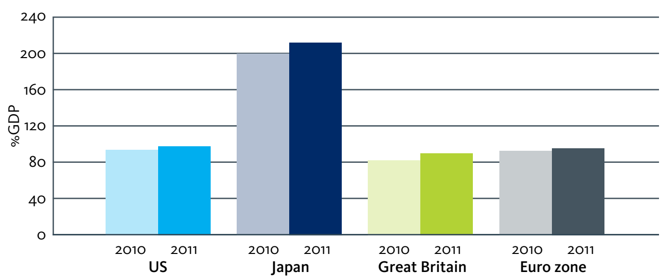
The Dutch economy saw moderate expansion during the year under review. The 1.8% rise in GDP was largely attributable to foreign demand. Exports saw continued strong growth, although figures were slightly less positive in comparison with 2010. Investment in fixed assets recovered from the decline in 2010, although the resulting growth in employment was relatively modest. Economic confidence came under pressure over the course of the year, resulting in an overall drop in consumption in 2011. Inflation rose from 1.3% to 2.3%.

Monetary policy remained accommodative in 2011. The US Federal Reserve decided to extend the maturity period of purchased government bonds. The measure was an attempt by the US central bank to suppress long-term interest rates and stimulate economic growth. The Federal Reserve also announced that the most important official rate could be maintained at the extremely low level of 0% to 0.25% until the end of 2014.

1. Budget deficit (in % of GDP)



2. Gross government debt (in % of GDP)



By contrast, the European Central Bank (ECB) decided to raise refinancing rates in two stages from 1.0% to 1.5% in the spring, in response to rising inflation. The escalation of the euro crisis prompted a major shift in monetary policy in the second half of 2011. In order to maintain financial stability, the ECB decided to resume the purchase of government bonds from financially weaker euro countries in August. In comparison with the US, however, these purchases remained modest in terms of scale and were compensated by liquidity tightening measures to suppress inflation risks. Market value losses on government bond investments could not be traced with sufficient accuracy due to a lack of transparency. As a result, the level of trust between banks fell perceptibly. Banks were less willing to loan each other funds, opting instead to deposit increasingly large amounts with the ECB. In order to prevent a serious regression in lending, the central bank was forced to take additional liquidity easing measures, including the issue of large-scale three-year loans to the banks. In addition, the refinancing rate was lowered back to 1.0% in two steps.

Euro zone interest-rate differentials increased significantly as a result of the fiscal problems. Interest rates for government bonds dropped to historic lows in the northern euro countries. The return on ten-year German government bonds dropped from 2.9% to 1.8% in 2011. The interest on comparable Dutch government bonds dropped from 3.1% to 2.2%. Interest rates for bonds with a shorter maturity period dropped to even much lower levels. In December, the Dutch government even issued two money market loans at slightly negative interest rates. By contrast, governments in the southern euro countries saw interest rates continue to rise due to a lack in investor confidence. This development was partly attributable to a decision by European government leaders on 21 July 2011, specifying that further financial assistance to Greece would be subject to private sector contributions. The banks were requested to voluntarily write off a considerable part of their loans to the Greek government. Investors feared that such an arrangement would eventually be extended to other countries, despite the fact that this is expressly prohibited under the terms of the European agreement. This climate of uncertainty was further exacerbated by the failure to expand the emergency fund to a point where it could provide an adequate buffer against potential new financing problems. Non-EU countries proved unwilling to make loans to the emergency fund. In response, government leaders decided that the European central banks would issue EUR 150 billion in government-guaranteed bilateral loans to the IMF in order to finance the euro countries. The other EU member states were requested to contribute EUR 50 billion. Government leaders have expressed the hope that non-EU countries will now also prove willing to loan additional funds to the IMF. Interest rate differentials had decreased slightly at the end of the calendar year. This was mainly attributable to the aforementioned easing of monetary policies by the ECB. Banks invested part of the additional liquidity in government bonds, resulting in declining returns – especially for shorter maturity periods.

In December 2011, government leaders took a number of measures to improve budgetary discipline and stimulate the convergence of economic policies. The member states signed a pact for budgetary discipline, laying down existing agreements in these areas. Among other consequences, the pact will result in almost immediate sanctions on countries that breach thresholds and agreements. However, the imposition of sanctions will remain subject to intergovernmental decision-making processes. Furthermore, the European Stability Mechanism (ESM) will now be implemented in mid-2012 – one year ahead of schedule. According to the proposals, the fund will have a nominal size of EUR 700 billion. Of this total sum, EUR 80 billion will consist of equity, with the remaining amount made up of guarantees issued by the euro countries. The EFSF is solely made up of guarantees from the euro countries. In order to qualify for an ESM loan, countries must sign the budgetary discipline pact.

Developments and consequences of the new regulations
Among other measures taken in response to the crisis, legislators and regulators have subjected financial institutions and – more specifically – banks to a wide range of new rules and regulations. Nearly all proposals will directly or indirectly result in additional burdens on banks, such as the bank levy, the central clearing of swaps and the additional capital requirement for derivatives. In addition to the implementation costs and the effect of additional burdens, the potential for a negative impact on the supply of loans and advances should also be taken into account. In terms of legislation, the bank will be most significantly impacted by Basel III, CRD IV and the adjustments to IFRS. The resulting details were further elaborated over the course of 2011.

The adjustments to IFRS regulations (especially IFRS 9) will have far-reaching effects in terms of balance sheet classification and composition of the income statement. The current proposals may also cause major changes to banks' accounting results. According to expectations, banks will be required to value more assets at market value, resulting in a greater volatility of results. BNG, however, expects to value more assets at amortized cost, thus improving the stability of annual results. The International Accounting Standards Board (IASB)'s initial proposals on impairment and hedge accounting proved highly complex, and met with a great deal of resistance from various parties, such as preparers of annual financial statements. The IASB has taken these comments on board and is currently working to prepare feasible alternatives. In mid-2011, the resulting delays prompted the IASB to postpone the original implementation date for IFRS 9 from early 2013 to early 2015. As a result of this adjusted planning schedule, the bank will have to ensure that the new legislation has been implemented by early 2014 in order to ensure the availability of comparative data.

The Basel Committee on Banking Supervision issued the guidelines for Basel III in December 2010. Unlike most banks, BNG's main focus will not be on new liquidity requirements or the new capital requirements for risk-weighted solvency ratios (such as the BIS Tier 1 ratio). BNG complies with the relevant minimum standards. BNG 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 as a percentage of the balance sheet total, and is thus automatically unfavorable for banks with a balance sheet consisting largely of assets with low credit risk. The draft versions of the new European legislation (CRD IV) were published in the second half of 2011. Once implemented, they will enshrine the Basel Committee's proposals in regulations and guidelines. As of yet, the draft does not contain any target percentages with regard to the leverage ratio. The European Banking Authority – the acting supervisory authority for the European banking sector since 1 January 2011 – has been commissioned to prepare an analysis of the optimal level of the ratio (in view of the various banks' different organizational models) by 2016 at the latest.
This enables the bank to make a strong case toward sector associations and regulators with regard to the negative impact of such a broad capital requirement on banks with a low credit risk, such as BNG.

Despite the current uncertainties and seemingly ample implementation period, measures in preparation of such necessary decisions should be taken sooner rather than later. The financial markets seem eager to push through adjustment to the new guidelines within a shorter time frame than the relatively generous transition periods formulated by regulators. DNB is also expecting periodically updated migration plans indicating how and within which time frame the new requirements will be met. BNG prepared an initial plan in 2011 to ensure that it will be able to meet the minimum leverage ratio requirements by 2017 at the latest.
BNG has various options at its disposal for meeting this minimum standard in time. However, one of these potential solutions – decrease in balance sheet total – is not a viable option as far as the bank is concerned. This could only be achieved by the divestment of a substantial portion of the bank's credit portfolio and restricting the issue of new loans and advances. This would be in direct contradiction with the bank's objectives. In order to achieve the necessary equity growth, the bank will have to retain a larger portion of its profits, possibly in combination with the issue of a relatively limited amount of hybrid debt securities with equity characteristics in the future. Based on the developments and outlook at the end of 2011, the proposed annual dividends are to be set at 25% of the net profit, starting with the distribution over the 2011 reporting year which is to be decided on in this meeting. This adjustment of the bank's dividend policy will basically apply to the entire transitional period leading up to 2018, but will be subject to reassessment once a definitive decision has been reached on the exact leverage ratio (and the form it will take), or in the event that expectations regarding growth and/or result development are not met.

Client developments

Public sector

Working on the basis of the 2010 coalition agreement, the government has entered into more detailed agreements with local authorities regarding the proposed decentralization efforts, the financial and management structures and the code of conduct for 2012-2015.

A negotiated agreement was reached in the spring of 2011. The agreement provides clarity on the decentralization of Youth Care and the supervision of care under the Exceptional Medical Expenses Act (AWBZ). The agreement also yielded positive outcomes in terms of policy freedom for municipalities, the size of available budgets and the restriction of regulations. The targets for Regional Administration Authorities as defined in the coalition agreement have been scrapped. Concrete agreements were also reached on reducing the regulatory burden and the further development of e-government. The agreement also contains compensatory measures to offset the end of government contributions to the Waste Disposal Fund as of 2013.

As a result of the bleak economic outlook, the scale of available financial provisions is limited. Employment measures, especially in the area of sheltered employment, are a source of major concern. Although the government has pledged to allocate EUR 400 million through a restructuring fund, this amount is not expected to be adequate. As a result, the agreement has met with a great deal of resistance from municipalities.
The general meeting of members of the Association of Dutch Municipalities (VNG) in June 2011 saw the municipalities vote in support of the negotiated agreement, with the exception of the social paragraph on working according to ability.
The government and the VNG will both be making individual efforts to further develop the work and sheltered employment case file.

The outlook with regard to area development remains worrisome. Municipal losses on spatial development plans may accrue to EUR 2.9 billion over the coming years. This is the conclusion of a study commissioned by the VNG, the Ministry of the Interior and Kingdom Relations and the Ministry of Infrastructure and the Environment.
EUR 1.8 billion of this EUR 2.9 billion total is comprised of direct losses, of which EUR 0.8 billion was already recognized in the municipal accounts in 2010. EUR 1.1 billion is comprised of profit evaporation, of which EUR 0.1 billion was already recognized in the municipal accounts in 2010. While most municipalities still have sufficient financial reserves to cover such setbacks, others will be forced to make cutbacks. It is estimated that approximately 35 municipalities do not have sufficient contingency funds to cover these setbacks. As a result, the number of municipalities at risk of being placed under financial conservatorship (Article 12) will rise dramatically. In 2011, three municipalities applied for supplementary benefits under Article 12. It should be pointed out that area development policy was the not the main cause of the financial difficulties at any of these municipalities.

Social housing

BNG is the most important financier for the housing association sector. In the wake of the unprecedentedly high level of loans and advances issued in 2010, credit applications from the housing association sector saw a strong decline in 2011, in line with expectations. In 2010, housing associations were anticipating the introduction of new regulations on State aid that would restrict the availability of loans guaranteed by the Social Housing Guarantee Fund (WSW) as of 1 January 2011.

The interim State aid scheme for housing associations took effect on 1 January 2011. This scheme was established in response to the 2009 European decision on State aid.
The government's status as guarantor of WSW loans is the most important aspect of this State aid. The interim scheme defines which activities are eligible for State aid, and sets out the relevant terms and conditions. However, the scheme does not yet contain any provisions regarding the administrative separation (as mandated in the European decision) between services of general economic interest (SGEI) that are eligible for State aid and non-SGEI activities for which no government funds may be allocated. The Minister of the Interior and Kingdom Relations submitted a proposal on the revised Housing Act to the Lower House of Dutch parliament in May. Amongst other provisions, this act provides further elaboration of the regulations on State aid. However, the legislative bill draft does not provide definitive guidelines on the actual implementation of administrative separation or the extent to which housing associations may engage in non-SGEI activities. These points will have to be elaborated in further detail in an order in council. The exact form these measures take will largely determine the degree to which these activities will be financed in the future.

The interim scheme also specifies that any refinancing on the basis of WSW guarantees must be limited to SGEI activities. According to the terms of the transitional arrangement, loans guaranteed by WSW prior to 1 January 2011 may be fully allocated to SGEI activities. This means such loans are basically eligible (in full) for guaranteed refinancing. An exception is made for associations that have borrowed more than 50% of the 'WOZ' value (a value determined for the purposes of the Valuation of Immovable Property Act) of their housing stock under the terms of the WSW guarantee.
Non-guaranteed loan applications are currently still restricted. This is partly due to the terms of the transitional arrangement. Other reasons include the current situation in the housing market and the uncertainties with regard to administrative separation.

The government's vision on housing, as presented in July 2011, reiterates various aspects featured in the coalition agreement. In this context, the aspects of rental policy, tenants' option to buy and a clearly defined scope of activities will have the greatest influence on the housing association sector.
Amongst other basic principles, the government's vision on housing centers around the limited correlation between the price and desirability of rental homes, and the large size of the housing association sector considering the number of households that form their target group.

The continual growth of investments in newly built housing (both rented and owner occupied) seems to have come to an end. According to the Central Housing Fund's Analysis of the housing association sector, housing associations are once again shifting the focus of their investments to the lower income groups. This development can be attributed to the current situation on the housing market and the reduced financial capacity. Although the volume of investment in newly built housing is declining, the scale of investments in home improvements and renovations is increasing.

Healthcare sector

Over the course of 2011, the Dutch government decided on various measures to help keep healthcare in the Netherlands affordable, accessible and of high quality. A number of key measures will be implemented in order to transform the existing supply-based healthcare system into a demand-based model. These measures are aimed at controlling the continued growing collective healthcare expenditures.

The funding of hospital care will undergo major changes in 2012. Hospitals will be subjected to a range of government measures. In addition to the introduction of an entirely new claims system, the funding structure for hospital care will be reformed. A transitional model will be introduced to gradually replace the current system for funding specialist medical care budgets with a performance-based funding system over the 2012-2013 period. The so-called B-segment – healthcare activities for which healthcare providers and insurers may freely negotiate pricing and quality standards – will be expanded to 70%. Availability-based compensation rates will be defined for specific healthcare activities that are not suited to performance-based funding. Over the course of the 2012-2014 period, a temporary management model will be introduced for the fees of independent medical specialists. The advance financing of hospitals will in future be negotiated between hospitals and health insurers.

A speedy transition to a demand-based healthcare system is a matter of great importance to the government. Under the current system, budget cuts are unavoidable as healthcare expenditures continue to exceed healthcare budgets by an ever greater margin. A macro management model will be introduced in order to ensure that budget overruns in specialized medical care can be charged on to hospitals. The government has also entered into a covenant with the relevant parties to control the costs of specialized medical care. The aim of the covenant is to limit volume growth to 2.5% in the coming years.
In the government's view, health insurers should play a crucial role in controlling growing healthcare expenditure. Adjustment of the risk equalization model will shift a larger portion of the financial risk to healthcare insurers. This should stimulate them to streamline the contracting of healthcare, and contribute to lower prices and higher quality. These changes concern the rollback of macro costing and the adjustment of various post-compensation mechanisms in the risk equalization structure as of 2012.

In September 2011, the Dutch Healthcare Sector Guarantee Fund (WfZ) was awarded the triple-A status by rating agency S&P. This was the first assessment of WfZ's creditworthiness since its establishment in 1999, and was conducted at the organization's own request. WfZ requested the assessment in order to offer its members optimal access to the capital market. Many pension funds and insurers – especially those abroad – formally require a triple-A rating before they can invest in certain debtors. Reflecting a possible future ratings downgrade of the Dutch state, S&P has now assigned WfZ a 'negative outlook'.

Performance-based funding is also set to be introduced in the nursing sector. A system of comprehensive rates will be introduced for long-term care and nursing and mental healthcare. This comprehensive rate system will include a standard housing component (SHC) designed to cover the costs of funding. Crucially, the coverage of the costs of funding no longer reflects the actual costs of funding.
Once the transition has been implemented, the financing of the costs of funding may be subject to either a coverage deficit or a coverage surplus, depending largely on the age of the relevant building. As a result, healthcare institutions may have to depreciate their book values if current depreciation periods prove not to be in line with actual economic life.
The government does not intend to provide any form of compensation in this area. Given the relatively long depreciation periods, the introduction of the new healthcare system is not expected to be a smooth one.

The government is seeking to separate the aspects of care and housing as much as possible. This means the funding of care activities will be separated from the financing of the cost of real estate. In future, AWBZ funds will have to be spent on healthcare activities to the fullest possible extent. Where possible, healthcare institutions will have to finance the cost of real estate by entering into lessor-lessee relationships with their residents.

Public-private partnerships: DBFM(O)

BNG plays a key role in the financing of projects based on the Design, Build, Finance, Maintain & Operate (DBFMO) tender procedure. The government presented its vision on DBFMO in March. The intensified application of DBFMO should help ensure that buildings such as government offices, army barracks and prisons, as well as infrastructure such as roads, railroads, sluices, and canals can be constructed, maintained and managed more effectively at lower cost. DBFMO will be applied in all cases where this yields added value.
For example, the Directorate-General of Public Works and Water Management expects to put at least 10 billion euros worth of DBFM contracts out to tender over the coming years.

The application of DBFMO at municipal and provincial level has been slow to take off. However, provincial and municipal authorities are showing increasing interest in comprehensive tender procedures. The Minister of Infrastructure and the Environment opened a PPS helpdesk in late October.
The initiative is aimed at stimulating the use of integrated contracting in a broader range of commissions. The helpdesk will come to serve as an information centre for both governments and businesses. BNG has been closely involved in the initiative.

Strategy

BNG is the bank of and for local authorities and public sector institutions. BNG's specialized financial services help to minimize the cost of social provisions to the public. In this regard, the bank plays an essential role in the public sector. BNG's mission is translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for the shareholders. Maintaining an excellent credit rating and retaining a competitive funding position, as well as managing the bank's business as effectively and efficiently as possible, are necessary prerequisites in this endeavor. Solvency-free lending remains the bank's core activity, in which municipal and provincial authorities, housing associations and healthcare institutions are the most important client groups.

Substantial market share means BNG strives to serve 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 the bank's target of a minimum of 8% in net return on equity.
The 2011 objectives were achieved. Market shares are above – in some cases far above – target. This is partially due to the fact that the bank has always managed to keep an open counter. The interest result is developing favorably and the bank has managed to create profitable margins in the lending portfolio for future years through the funding and liquidity policy it follows. The top ratings were reconfirmed in 2011 and BNG is considered to be one of the safest banks in the world [17], despite the 'negative outlook' assigned by rating agency S&P to reflect a possible future downgrade of the Dutch State.

BNG wants to further enhance its role as an expert in financing public provisions in the years ahead. The bank's strategy is aimed at responding to (changing) customer needs by adhering to government policy and offering solutions to increasingly complex financing issues. Although the crisis has led to a setback, the bank expects a shift toward unguaranteed lending, subject to solvency requirements in almost all sectors in the longer term. The pursuit of more public-private cooperation in nearly all sectors and the assumption of responsibility for accomodation/housing in the healthcare and education sectors are examples of this shift. Among other things, the bank provides 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 circumstances. For that matter, past foreign lending by BNG has always been confined to clients within EU member states with a minimum rating of AA-/Aa3. Lending to foreign clients amounts to approximately 1% of the total lending portfolio. Investments in foreign debt securities from EU countries are only entered into if they fit the bank's liquidity management policy. In that regard, the bank owns a portfolio of – mostly negotiable – debt securities from EU countries, including the so-called GIIPS countries. The policy was modified 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.

|17 Global Finance, www.gfmag.com/tools/best-banks/11661-worlds-50-safest-banks-april-2012.html#axzz1oRKokW9V

Products and services

Lending is and remains the bank's core activity. BNG also provides payment services, consultancy services, participates in regional development and offers sustainable investments 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 bng.nl.

Loans and advances

Ever since the start of the crisis, BNG's important role as a lender to government authorities and public sector institutions was emphasized. Where most competitors reduced their long-term lending to public authorities and institutions, BNG continued its lending unabatedly.

As expected, the volume of new long-term lending decreased in 2011 compared to 2010, falling 25% to EUR 12.3 billion. This returns the volume of new business to a more usual level, following the historically high level of 2010. Also as expected, the decrease is mainly visible in the housing sector. Due to uncertainties at the time regarding new regulations on guarantee options, housing associations already refinanced a significant part of their funding needs at the end of 2010. The demand for new long-term lending from local governments and the healthcare sector remained practically unchanged in 2011 compared to the year before. Partly due to the reticence of its competitors, BNG's market share stabilized in all sectors at the previous year's very high levels.

The volume of new lending subject to solvency requirements rose by EUR 0.3 billion to EUR 2.0 billion in 2011 relative to 2010. Lending subject to solvency requirements has become relatively expensive because of the crisis, with the higher risks inducing higher credit risk spreads. Particularly among local governments and housing associations, the demand for lending subject to solvency requirements is diminishing due to the delay or – in some cases – cancellation of investment plans caused by deteriorating economic conditions and outlook. There was a relatively large demand from the healthcare sector for loans without a guarantee from the Dutch Healthcare Sector Guarantee Fund (WFZ) in 2011. Half of the new lending subject to solvency requirements came from this sector, mainly for the financing of several large investments in academic hospitals, most of which took place in syndicates with other Dutch financial institutions.

The total long-term lending portfolio to customers based on principal amounts rose by EUR 6.2 billion to EUR 80.2 billion in 2011. The rise was largely due to the approximately EUR 2.7 billion in higher borrowing from the local government and housing sectors. Despite the sharp decrease in new credit facilities in the housing sector, payment in 2011 of loans contracted in 2010 led to an increase of the portfolio. The healthcare portfolio also showed relatively stable growth, with an increase of more than EUR 0.6 billion. The other sectors showed a slight increase or remained practically stable. The average volume of short-term lending to clients fell by EUR 0.3 billion to EUR 5.1 billion compared to 2010. The slight rise in short-term interest rates contributed to a moderate consolidation of short-term debts.

Consultancy

BNG Advies supports BNG's clients in making strategic investment decisions. In an increasingly complex environment, public organizations are far more often 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 these solutions.

Area development

BNG Gebiedsontwikkeling realizes spatial planning projects. This is done in close cooperation with government parties, 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 is not impaired. At the end of 2011, BNG Gebiedsontwikkeling was participating in 26 joint ventures.

BNG Gebiedsontwikkeling is also facing difficult market conditions as a result of the economic crisis. Negative consequences include sales in current participations coming to a standstill and falling land prices, especially in housing schemes. In addition, the market is in a state of constant flux due to amendments in legislation, changes in insight and other developments regarding partnership structures.
In view of the negative developments and the uncertainties, an extremely cautious approach is being taken to new participations. No new projects were started in 2011.

Asset management

BNG Vermogensbeheer focuses on asset management for government authorities and other public sector institutions. Besides municipalities, urban regions and provinces, assets are also managed for educational organizations, housing associations and other organizations in the utility and the healthcare sectors. In 2011, the volume of assets under management rose from EUR 4.1 billion to EUR 5.9 billion.

BNG Vermogensbeheer has prudent investment objectives and applies the principles of the underlying legislation and regulations applicable for local authorities, including the Local and Regional Authorities Financing Act (Wet Fido) and the

Local and Regional Authorities Loans, Advances and Derivatives Regulation (Ruddo Regulation), as a basis for the development and management of its investment funds and the management of individually tailored investment portfolios. Sustainable investments and sustainable portfolios lead to the most satisfying solutions for clients, including when it comes to returns. In order to invest sustainably, BNG Vermogensbeheer cooperates with specialized institutions.

Payment services and e-banking

BNG 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 BNG clients to process their payments quickly and safely via the internet. The module 'BNG Treasury' supports customers with their treasury management.

In 2011, new steps were taken in the development of the European payment market, the Single Euro Payments Area (SEPA). BNG adjusted its products accordingly. For instance, the migration of the Prepaid PIN card to the Maestro version was completed in 2011. The end date for the use of the current Dutch systems for transfers and collections is set at 1 February 2014. BNG is supporting its customers in getting ready for this deadline.

BNG managed to retain its strong position in the field of payment transactions in the year under review. The number of transactions processed for clients exceeded 80 million in 2011, which was slightly higher compared with the previous year. BNG 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. Centric FSS is responsible for operating the payment services. The replacement of the current core-banking platform will be concluded in 2012.

Funding

The bank's long-term funding is largely carried out through the issuance of bonds under the standardized Debt Issuance Programme. The total size of this program was expanded from EUR 80 billion to EUR 90 billion in 2011. BNG's funding policy is designed to respond to investor wishes with optimum flexibility. This strengthens relations with investors and enables the bank to attract funding on highly competitive terms. The bank raises loans in various currencies, with terms and conditions tailored to the needs of both institutional and private investors.

In the first half of 2011, the bank improved its liquidity profile by attracting long-term funding with relatively long maturity. The second half of 2011 was marked by reduced activity in the international capital markets. As of November, it became increasingly difficult to raise long-term funding at customary spreads due to the lack of a structural solution to the European debt crisis. As a result, the credit and liquidity spreads the bank pays on funding with longer maturities increased during the last two months of the year. The difference with the spreads paid by the Dutch State at the end of 2011 is comparable to the difference just after Lehman Brothers collapsed at the end of 2008. As a precaution against further narrowing of liquidity in the capital market, BNG made relatively ample use of the ECP program at the end of the year under review. The 'flight towards quality' has made it possible for BNG to raise short-term funding at very favorable prices. The short-term funds attracted as a precaution were almost entirely placed with the central bank.

For lending and refinancing purposes, BNG obtained a total of EUR 16.4 billion in long-term funding in 2011 (2010: EUR 18.2 billion), of which EUR 15.6 billion was raised through 97 standardized issues. The weighted average maturity of the total long-term funding fell by 0.5 years compared with 2010 to 6.4 years. In 2011, the bank issued bonds in 12 different currencies. The currency and interest risks of these issues are fully hedged. The share of euro-denominated issues amounted to 49% in 2011. Apart from the euro, bonds were principally denominated in US dollars (35%).

Each year, the bank issues a number of benchmark loans, so that BNG yield curves in euros and US dollars continue to be available to institutional investors. In 2011, BNG issued 8 benchmark loans in euros and US dollars, with amounts varying from 1.0 to 2.0 billion. The euro equivalent of the total amount issued in benchmark loans for 2011 is EUR 9.3 billion (2010: EUR 10.5 billion).

Results

BNG's 2011 net profit decreased fractionally compared with last year, down EUR 1 million to EUR 256 million. The interest result was significantly higher than in 2010 and exceeded the forecast for 2011. This increase was not reflected in the net profit level. Due to the lack of a structural solution to the European debt crisis, the 2011 net profit was again negatively influenced by the development of the result financial transactions. The profit before taxes amounted to EUR 339 million (2010: EUR 337 million).

The interest result in 2011 rose by EUR 52 million compared to 2010 to EUR 462 million. This increase was mainly caused by the expansion of the long-term lending portfolio and the improved return on the entire portfolio. As a result, the quality of the result improved further in 2011. The constantly steep interest curve also positively influenced the interest result.

The result financial transactions was EUR 89 million negative in the period under review (2010: EUR 37 million negative). In the last months of 2011 in particular, the prolongation of the European debt crisis mostly led to considerable increases in credit and liquidity spreads for various European countries. As a result, BNG had to recognize an amount of EUR 114 million in unrealized negative revaluation on interest-bearing securities and loans in the balance sheet item financial assets at fair value through the income statement (2010: EUR 45 million negative). Despite the continuing pressure on the value of these assets, no impairment was deemed necessary at the end of 2011. Based on current expectations, the debtors concerned will be able to meet their future obligations.
In addition, the result financial transactions contains unrealized market value changes of transactions involved in hedge accounting. This result was EUR 11 million positive in 2011 (2010: EUR 8 million negative). The bank's hedge accounting continues to work almost perfectly. Positive and negative results from hedge accounting cancel each other out in the longer term. The remainder of the result financial transactions was EUR 14 million positive (2010: EUR 16 million positive) and was mainly caused by the development of the nominal interest rates and the returns on sale of interest-bearing securities in the balance sheet item financial assets available-for-sale.

The 2011 commission result fell by EUR 2 million to EUR 27 million compared with 2010. This decrease is partly due to the fall in commission income from credit facilities and project financing. As a result of a temporary fall in the total amount of assets managed, the commission income from asset management dropped in the period under review by approximately EUR 1 million.

The ongoing crisis also negatively impacted the results from the participations of BNG Gebiedsontwikkeling. This is expressed in several items of the income statement. The 2011 results from associates and joint ventures contain an amount of EUR 1 million negative resulting from lower result prospects in the participations. Furthermore, the bank decided to partly or fully impair the equity invested in a limited number of participations. This impairment, which amounted to EUR 6 million, is incorporated in the other results. Finally, the negative developments in the portfolio of BNG Gebiedsontwikkeling was the reason for adding EUR 1 million to the incurred loss provision, which now amounts to EUR 32 million. This negative result is stated separately in the income statement in the item addition to the incurred loss provision (2010: EUR 4 million negative).

The consolidated total operating expenses amounted to EUR 60 million, which is incidentally more than EUR 2 million lower than last year and is also well within the budgetary expenses for 2011. The staff costs are only slightly higher, due to lower than expected increases in premiums and a less rapid expansion of the work force. As a result of the delay in a large project, the costs for IT, temporary employment and consultancy were all lower than in 2010.

In 2010, BNG switched to using IFRS valuations for financial instruments in determining the tax returns retrospectively to 2005. This led to a one-time positive effect on the 2010 tax burden. In 2011, the tax burden was in line with the nominal tax rate of 25% (2010: 25.5%). Compared with 2010, the tax burden increased by EUR 3 million to EUR 83 million.

The balance sheet

The balance sheet total rose sharply in 2011 by EUR 18.1 billion to EUR 136.5 billion. A similar large increase also occurred in 2010. This increase was caused by several factors. First of all, there is of course the autonomic expansion of the lending portfolio. This is visible in the EUR 3.9 billion rise in the item loans and advances to EUR 90.8 billion.
However, the most important reason for the rise in the 2011 balance sheet total is one that lies beyond the bank's sphere of influence. Market conditions at the end of 2011 – specifically the low long-term interest rates and the depreciation of the euro against the US dollar – have had major accounting consequences. The resulting economic effects are very limited because BNG hedges all currency risks and the majority of interest rate risks with derivatives. The accounting effects are mainly expressed in the sharp rise of the items other financial assets, debt securities and other financial liabilities.

The ‘flight towards quality’ in the money and capital markets meant many clients, large corporations and banks placed their excess liquidity with BNG in the final months of the year. This resulted in, among other things, increases in the liability items funds entrusted by EUR 3.3 billion to EUR 10.9 billion and amounts due to banks by EUR 1.4 billion to EUR 7.5 billion. The increase in these two liability items was responsible for the increase in the item cash and balances with the central bank by EUR 4.1 billion to EUR 5.1 billion. The bank’s excess liquidity was placed with the central bank for the large part.

Compared with the end of 2010, the bank’s equity fell by a rounded EUR 362 million to just under EUR 1.9 billion. The decrease was caused by the net profit in the reporting period, the 2010 dividend pay-out of EUR 128 million, the drop in the revaluation reserve by EUR 209 million to EUR 271 million negative and the emergence of a EUR 282 million negative cash flow hedge reserve. The unrealized value adjustments in the revaluation reserve relate to the decrease in the value of assets in the item financial assets available-for-sale and are caused by sharply increased credit and liquidity spreads of assets, particularly in peripheral euro countries.

At the end of 2011, the bank’s equity also included an unrealized cash flow hedge reserve. The bank uses cross currency interest rate swaps to fully hedge the currency risks resulting from funding in foreign currencies. As a result, the bank is economically not subjected to currency risks. However, the possible change in the so-called basis swap spread plays a role in the mandatory fair value measurement of these swaps under IFRS. This effect is negligible under normal market conditions. Serious uncertainties surrounding the debt position of certain euro countries caused major changes in this swap spread in the second half of 2011. Due to the limited supply of US dollars in Europe, this effect was particularly expressed in the dollar-euro basis swap which, for the bank, reached its most unfavorable level in 2011 at the end of the reporting period.
Consequently, the bank started employing cash flow hedging on its funding in foreign currencies in addition to micro fair value hedging as of 1 July 2011, in an effort to mitigate the impact of these changes on the income statement. The mere use of micro fair value hedging can lead to an accounting mismatch, since the change in value of these swaps (which is economically irrelevant to the bank), resulting from the change in the basis swap spread, enters the annual result. This is undesirable because the economic risk is fully hedged. The use of cash flow hedging does, however, lead to unrealized revaluations in the bank’s equity. 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 (a part of) these negative revaluations can lead to a realized loss of equity. At year-end of 2011, this reserve amounted to EUR 282 million negative. The unrealized result arising from this risk as at 30 June 2011 was EUR 6 million negative, which was recognized in the income statement. The normalization of the markets can lead to a swift flow-back of this reserve into the bank’s equity. The volume of the cash flow hedge reserve does not influence the bank’s solvency ratios under the current Basel regulations.

The bank’s strong solvency position is reflected in its high BIS Tier 1 ratio. Due to the bank’s net result and the proposed reduction of the dividend pay-out percentage, this ratio will rise to 20.1%. The BIS total ratio rose to 20.9%. The leverage ratio fell to just over 1.8% as a result of the extension of the balance sheet total and remained under the current internal limit of 2.0%. If the accounting effects of the unfavorable market conditions are eliminated, the leverage ratio at year-end 2011 comes to 2.0%. The volumes, either negative or positive, of the revaluation reserve and cash flow hedge reserve are not factored into the calculation of the leverage ratio. Both reserves consist of unrealized value adjustments which, in principle, will not influence the bank’s net result.

Proposed profit appropriation
For the year 2011, a net profit of EUR 256 million (2010: EUR 257 million) is available for dividend distribution and addition to the reserves. A dividend percentage of 25% (2010: 50%) of the profit after taxes has been proposed. This works out at a dividend pay-out of EUR 64 million (2010: EUR 128 million). The remainder will be added to the reserves. This dividend amounts to EUR 1.15 (2010: EUR 2.30) per share with a nominal value of EUR 2.50.

Staff and organization

Human resources
Including its subsidiaries BNG employed 292 employees (94 women and 198 men) at the end of 2011. Expressed in fulltime equivalents (FTEs), the number of employees rose from 276 to 278 in the period under review. Staff turnover amounted to 4.5% in 2011. A quarter of this turnover was due to employees retiring or taking early retirement. Two employees left the bank on their own initiative. The employment contracts of half of the employees who left the bank were terminated on the initiative of BNG. We deeply regret the passing of one colleague.

The bank recruited 15 new employees in 2011. The hiring of external manpower rose by 1.5 FTEs to an average of 11.5 FTEs. Absenteeism due to illness remained at the last year's low level of 2.1%.

Special attention was given in 2011 to the subject 'Customer interest central'. Nearly all BNG employees attended a meeting and discussed various points of view on the subject. Almost every employee agreed to an action plan to improve communication and cooperation to even further centralize customer interest.

BNG regularly offers job-related training and education within the framework of permanent education, mainly aimed at quality improvement. In 2011, among other things, meetings were held on raising the risk awareness at BNG and a training course was developed to make employees more effective at detecting potential traps in assessing credits. This training will be offered to employees in the first quarter of 2012.

Further details on the social aspects of the business are described in the Social Annual Report, which is published on bng.nl.

The dedication and sense of involvement shown by all employees strongly contributed to the positive developments in 2011, for which a compliment is well in order.

Employees' Council
The Employees' Council held five meetings with the Executive Board in 2011, three of which were attended by one or more members of the Supervisory Board. These meetings presented an opportunity for the attendees to share their thoughts on a variety of subjects in a constructive manner.

In 2011 the Employees' Council, together with the Executive Board, discussed a wide range of topics with an emphasis on the 2011 Annual Plan, 'Customer interest central', the 'Health week' and the termination of the pension contribution plan in favor of a profit participation plan. Another topic of discussion was the creation of a joint Employees' Council, which will enable the entry of employees of subsidiaries BNG Gebiedsontwikkeling and BNG Vermogensbeheer in the employees' council. Furthermore, the bank's financial course and strategy were also discussed during these meetings, as were the social policy, the annual Health & Safety Plan, compliance issues and terms of employment.

The Employees' Council itself held eleven meetings and informed the bank's employees of various topics through reports on the intranet and individual conversations. The Employees' Council debates with the Supervisory Board and Executive Board during the annual theme meeting and participates actively in the Interbank Employee Representation Platform.

The term corporate governance refers to the existence of proper governance structures within an organization, and the implementation of sound entrepreneurial practices. This includes integrity and transparency, as well as proper supervision and accountability of that supervision. At BNG, the pursuit of good corporate governance is a matter of policy. This is to be expected, given BNG's role in the Dutch public financing system and its accordingly strong social character.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code has so-called principles and best practices. The rudiments of sound management are formulated in the principles, which in turn are elaborated into best practices. The basic premise of the Code is that listed companies should adhere to these principles. Non-compliance of the best practices is permitted, however subject to the condition that any such instances are disclosed and explained in the Annual Report in accordance with the 'comply or explain' principle. A partly amended version of the Code was published in December 2008.

BNG complies with the amended Code. The bank adheres to the principles of good corporate governance stipulated in the Code, while duly observing the statutory two-tier rule ('structuurregime') insofar as they affect a company's corporate governance structure. The regulations, codes, schemes and reporting procedures used at BNG are consistent with the Code. A separate section on corporate governance can be found on bng.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 has not implemented the recommendation in relation to a distant voting process. Given the nature of the bank and the origin of its shareholders, BNG does not consider this to be necessary. The bank places great value on its direct contact with shareholders. To this end, for example, a theme meeting is organized every year after the General Meeting of Shareholders (GMS). In past years, the shareholders' representatives attending the GMS and the theme meeting 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 depository receipts for shares.

Principles for a controlled remuneration policy

The Regulation for Sound Remuneration Policies pursuant to the 2011 Financial Supervision Act came into effect as of 1 January 2011. The regulation provides rules on, in particular the way remuneration policies of financial undertakings are drawn up, adopted or approved, implemented, evaluated and modified; the way remuneration components and structures are set up and the way a firm controls/mitigates risks arising from its remuneration policy and the pursuance thereof; and the content and the disclosure of a firm's remuneration policy or the pursuance thereof. Compliance with this regulation is deemed as a part of the supervision on controlled business by DNB. BNG 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 bng.nl.

Dutch Banking Code

The Dutch Banking Code contains principles that are in line with the Dutch Corporate Governance Code and applies to all banks operating in the Netherlands with a banking license pursuant to the Dutch Financial Supervision Act. Non-application of the Dutch Banking Code is permitted, however subject to the condition that any such instances are disclosed and explained in accordance with the 'comply or explain' principle.

BNG complies with the Dutch Banking Code. BNG gives an account for the way it has implemented the principles of the Dutch Banking Code on bng.nl. The regulations, codes, schemes and reporting procedures mentioned in this account are also posted on the website. This is also the case for 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, i.e. 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'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 has a moderate remuneration policy, which is explained elsewhere in this Annual Report. Given BNG's size and the maximum variable remuneration at BNG compared with the maximum pursuant to the Dutch

Banking Code, the Supervisory Board considers it to be unnecessarily complex to develop a policy that provides for the assessment of responsibilities of individual Board members and adjustments for (estimated) risks and capital costs.

In Control Statement

The various risks attendant on the bank's activities are discussed each year in BNG's Annual Report. Considerable attention is paid to BNG'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 Basel II. The structure is described in an internal risk management framework that covers all risks identified by BNG. This framework is closely connected to the capital management plan. This plan is periodically reviewed and discussed with the Dutch central bank.

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 rules. There are no indications that the risk management and control systems will not function effectively in 2012.

The internal risk management of banks is getting a great deal of attention and new legislation and regulations in this field are continuing to take further shape. BNG took steps in 2011 to prepare for the implementation of these rules. The program started in 2011 to improve the risk awareness will have a permanent character.

Audits by the Internal Audit Department are focused on independently determining the quality and effectiveness of the internal risk management and control systems. The external auditor audits the annual 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 are represented at the meeting of the Audit & Risk Committee of the Supervisory Board and the Plenary Supervisory Board meeting at which the financial statements are discussed.

Outlook for 2012

In 2012, BNG will remain the bank for the social interest and will continue to offer specialized services at the lowest possible costs, regardless of market conditions. The bank strives to be a reliable partner, to maintain its strong market position and to continue and, where possible, improve the relationship it enjoys with its clients.

In 2012, new long-term lending is expected to show a slight decrease compared with the previous year. Although the current interest rates are an incentive to bringing forward future financing, the gloomy outlook for the major client groups, combined with the numerous uncertainties, will have an oppressive effect on new long-term lending. New lending subject to solvency requirements is also expected to fall. The bank expects the demand for loans subject to solvency requirements from the healthcare sector to be relatively high in 2012 once again. The bank will prudently respond to this demand, given the rising credit risks and the increased concentration risk in this sector as a result of the high turnover in the previous years.

BNG's 2012 long-term funding need is expected to remain at the 2011 level. The bank wants to maintain its good liquidity profile by attracting funding with relatively long maturity. The developments in the international capital markets are, however, worrisome. Continuing limited availability or relatively high prices can have negative consequences on the pricing of the bank's issues. In order to absorb temporary shocks in availability or pricing, the bank took precautionary measures in early 2012 by expanding the maximum size of the ECP program by EUR 5 billion to EUR 20 billion.

Personnel and associated costs are expected to rise in 2012, as a result of the ever-increasing regulatory burden and the resulting projects aimed at improving the bank's processes and systems. In particular, the tougher risk management demands for banks made by regulators will result in a structural burden. Together with wage increases under the collective labor agreement and premium increases, this will lead to a slight rise in operating expenses. Consolidated operating expenses of EUR 65 million are expected.

The 2012 interest result is expected to increase slightly compared with that of the year under review.
The development of the 2012 net result may deviate from the relatively favorable development of the interest result. Pressure on the result financial transactions may continue to grow, depending on how the European debt crisis is solved. In addition, it cannot be ruled out that some debtors in the peripheral euro countries may no longer be able to meet their payment obligations. This could mean that the bank will have to recognize a part of the unrealized losses from the revaluation reserve in the income statement. In the Netherlands, the crisis has primarily affected area development projects. Although the bank's portfolio in this sector is of good quality, here too the creditworthiness of a project may be further adversely affected, resulting in an addition to the incurred loss provision. BNG also has to take into account new regulation which may affect the bank's profitability. For instance, the government intends to introduce the bank levy mid-year 2012, and additional financial burdens for banks are currently being discussed. Given the numerous uncertainties, the bank does not consider it wise to make a statement regarding the 2012 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 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 – 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.

The Hague, 1 March 2012

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

Consolidated financial statements

Consolidated balance sheet as at 31 December 2011

Amounts in millions of euros

	31-12-2011	31-12-2010
Assets		
Cash and balances with the central bank 1	5,149	1,073
Amounts due from banks 2	8,448	7,382
Financial assets at fair value through the income statement 3	3,322	3,052
Other financial assets 4	21,519	13,457
Financial assets available-for-sale 5	6,919	6,412
Loans and advances 2	90,775	86,851
Investments in associates and joint ventures 6	108	109
Property and equipment 7	19	21
Other assets 8, 9	201	176
Total assets	**136,460**	**118,533**
Liabilities		
Amounts due to banks 10	7,469	6,037
Financial liabilities at fair value through the income statement 11	628	649
Other financial liabilities 12	14,367	9,320
Debt securities 13	100,907	92,321
Funds entrusted 10	10,944	7,677
Subordinated loans 10	93	92
Other liabilities 8, 9	155	178
Total liabilities	134,563	116,274
Equity 14	1,897	2,259
Total liabilities and equity	**136,460**	**118,533**

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

Consolidated income statement 2011

Amounts in millions of euros

		2011		2010
– Interest income 15	2,327		1,898	
– Interest expenses 16	1,865		1,488	
Interest result		462		410
Results from associates and joint ventures 17		0		2
– Commission income 18	33		35	
– Commission expenses 19	6		6	
Commission result		27		29
Result financial transactions 20		(89)		(37)
Addition to the incurred loss provision 21		(1)		(4)
Other results 22		0		0
Total income		**399**		**400**
– Staff costs 23	35		35	
– Other administrative expenses 24	23		26	
Staff costs and other administrative expenses		58		61
Depreciation 25		2		2
Total operating expenses		**60**		**63**
Profit before tax		**339**		**337**
Taxes 8		(83)		(80)
Net profit		**256**		**257**

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

Consolidated statement of comprehensive income 2011

Amounts in millions of euros

		2011		2010
Net profit		256		257
Changes in currency translation account		5		1
Changes in other reserves		(4)		(2)
Changes in cash flow hedge reserve after taxation		(282)		–
Changes in revaluation reserve				
– unrealized value adjustments	(242)		(97)	
– realized value adjustments	(10)		(12)	
– changes in taxes	43		(2)	
		(209)		(111)
Results recognized directly in equity (after taxation)		(490)		(112)
Total		**(234)**		**145**

Consolidated cash flow statement 2011

Amounts in millions of euros

	2011	2011	2010	2010
Cash flows from operating activities				
Profit before tax	339		337	
Adjusted for:				
– Depreciation	2		2	
– Impairment	6		3	
– Share of results from associates and joint ventures	–		(2)	
– Unrealized results through the income statement	101		49	
– Additions to provisions	1		4	
Cash flow generated from operations		449		393
Changes in amounts due from and due to banks (not due on demand)	429		1,239	
Changes in loans and advances	(1,333)		(5,042)	
Changes in funds entrusted	2,676		72	
Changes in derivatives	(322)		884	
Taxes paid	(104)		(37)	
Other changes from operating activities	(495)		(451)	
		851		(3,335)
*Total cash flow from operating activities**		1,300		(2,942)
Cash flows from investing activities				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	(2,527)		(1,373)	
– Associates and joint ventures	(5)		(3)	
– Property and equipment	–		(1)	
		(2,532)		(1,377)
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	3,364		1,436	
– Associates and joint ventures	–		–	
– Property and equipment	–		1	
		3,364		1,437
Total cash flow from investing activities		832		60
Cash flows from financing activities				
Proceeds from issuance of debt securities	27,353		27,629	
Repayments of issued debt securities	(25,406)		(24,015)	
Proceeds and repayments of subordinated loans	(4)		(83)	
Dividend paid	(128)		(139)	
Total cash flow from financing activities		1,815		3,392
Net change in cash and cash equivalents		**3,947**		**510**
Cash and cash equivalents as at 1 January		1,075		565
Cash and cash equivalents as at 31 December		**5,022**		**1,075**
Cash and cash equivalents as at 31 December are comprised of:				
– Cash and balances with the central bank		5,149		1,073
– Cash equivalents in the amounts due from banks item		4		2
– Cash equivalents in the amounts due to banks item		(131)		–
		5,022		**1,075**

* Interest received amounted to EUR 5,809 million while interest paid amounted to EUR 5,261 million.

Consolidated statement of changes in equity 2011

Amounts in millions of euros

2011

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Currency translation account	Other reserves	Un-appropriated profit	**Total**
Opening balance	139	6	(62)	0	(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)	0
Closing balance	**139**	**6**	**(271)**	**(282)**	**0**	**2,049**	**256**	**1,897**

2010

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Currency translation account	Other reserves	Un-appropriated profit	**Total**
Opening balance	139	6	49	0	(6)	1,787	278	2,253
Realized results							257	257
Unrealized results			(111)		1	(2)		(112)
Dividend payment						(139)		(139)
Appropriation from profit previous year						278	(278)	0
Closing balance	**139**	**6**	**(62)**	**0**	**(5)**	**1,924**	**257**	**2,259**

Accounting principles for the consolidated financial statements

General company information

The financial statements were issued for publication by the Executive Board on 1 March 2012 and will be presented to the General Meeting of Shareholders for adoption on 23 April 2012. BNG 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 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 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 on the basis of 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 of BNG.

Applicable laws and regulations

The consolidated 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.

In the financial statements for 2011, BNG applied the new/revised standards, adjustments and interpretations represented below. The application of these standards had no significant effect on the financial statements for 2011. This concerns the following standards, changes and interpretations:

- Amendments to IAS 32 – Financial Instruments: Presentation: Classification of Rights Issues
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments
- Revised IAS 24: Related Party Disclosures
- Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement
- Amendments to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures
- Improvements to IFRSs (issued May 2010)

BNG has decided against the early adoption of new or adjusted standards and interpretations. Early adoption of these new standards and interpretations would not have had any significant effect on the financial statements for 2011. This concerns the following standards:

- IFRS 7 Amendment Disclosures –Transfer of Financial Assets
- IFRS 1 Amendment- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IAS 12 Amendments – Deferred Tax Recovery of Underlying Assets
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- 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
- IAS 1 Amendment – Presentation of Items of Other Comprehensive Income
- IAS 19 Revised – Employee Benefits

At the end of 2009, the first part of IFRS 9: Financial Instruments: Classification and Measurement was issued, with a scope on financial assets. In 2010, the second part of this standard was issued, with the supplement for financial liabilities. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. This standard was supposed to come into effect in 2013. The IASB has proposed to set the effective date at 1 January 2015. The standard has not yet been adopted by the European Union. BNG 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 and net profit.

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'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 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 intergroup transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated financial statements. The consolidated financial statements comprise all subsidiaries in which BNG has controlling power. Control is presumed to exist when BNG, 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 the 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. A minority interest held by a third party is included in equity. In determining whether BNG has control over investment funds in which it holds units or shares, the financial interests held for BNG's own account, as well as its role – or that of its subsidiaries – as fund manager are taken into consideration. The reporting periods of group companies included in the consolidation coincide with those of BNG.

The use of estimates and assumptions

Where necessary, the amounts disclosed in this report are based on management estimates and assumptions. The most important 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 (including the incurred loss provision), deferred taxes, guarantee contracts and the employee benefits provision. BNG 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 future cash flows. Differences in the assumptions can have an effect on the reported values.

BNG 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. In 2011, the methodology for determining the incurred loss provision was changed. The new methodology sets out to follow the outcome of the internal rating models and the accompanying expected loss. As a result, the bank is substantially less dependent on management estimates in determining the level of this provision.

Fair value of financial instruments

The fair values are based on quoted market prices 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. It concerns generally accepted techniques and methods such as option pricing models, discounted cash flows, forward pricing and credit spreads. Contractual provisions are taken into account and available objective market data such as yield curves, correlations, volatilities and credit spreads are used. No use is made of assumptions that are not supported by market data.

Netting

Assets and liabilities are only netted when 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 consolidated financial statements are prepared in euros. Monetary transactions in foreign currencies are translated on the balance sheet date, and the subsequent results – with the exception of the hedge of a net investment in a foreign operation – are recognized in the foreign exchange result. The exchange result on a net investment in a foreign operation is recognized in equity. Non-monetary assets and liabilities that are recognized at cost are converted at the prevailing exchange rate upon first-time recognition. Results and financial positions of group companies with a non-euro functional currency are translated as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- Income and expenses are translated at the average rate over the financial year;
- Translation differences are recognized in equity, in the currency translation account.

Associates and joint ventures

Associates and joint ventures are stated according to the equity method. Associates are companies over which BNG has significant influence on operational and financial policy but no predominant control. In general, significant influence is assumed when BNG holds between 20% and 50% of the shares or voting rights. Joint ventures are contractual arrangements in which BNG and other parties enter into an economic activity over which they exercise joint and proportionate control.

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 a given 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 compound annual interest method over the interest rate maturity of the transaction.
Financial derivatives are stated as assets (positive fair value) or liabilities (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 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 right to receive cash flows from the asset and virtually all the risks and benefits of the asset has 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 results from sales are recognized in this case.
As far as the sale of financial assets and liabilities is concerned, BNG 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.

Derivatives
Derivatives are initially recognized at cost. They are subsequently recognized at fair value and any value adjustments are recognized in the income statement item Result financial transactions. Derivatives with a positive market value are presented in the balance sheet as assets under the item Financial assets at fair value through the income statement if they are not involved in a hedge accounting relationship and under the item 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 the item Financial liabilities at fair value through the income statement if they are not involved in a hedge accounting relationship and under the item Other financial liabilities if they are involved in a hedge accounting relationship.

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 from the moment of conclusion of the contract and value adjustments are recognized 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 bulk of the interest rate risk to which the bank is exposed in relation to its financial assets or liabilities is hedged by means of financial instruments. In market value terms, value movements resulting from interest rate fluctuations are offset. Insofar as the hedge relationship is effective, hedge accounting enables the bank to neutralize in principle the difference in result recognition between the hedging instruments and the hedged items. BNG uses derivatives solely as hedging instruments and 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 fair value 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 demonstrate that the hedge will remain effective for the remaining term. The ineffective part of the hedge relationship is always recognized directly in the income statement.

The hedge relationship is discontinued when the hedge relationship 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 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-to-one relationship between the hedged item and the hedging instrument. Portfolio hedging concerns a group of transactions that are hedged for interest rate risk using several derivatives. 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. 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.

Cash and balances with the central bank

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 loans are recognized net of the incurred loss provision. Under IFRS, BNG 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 impairment. With regard to the other loans and advances, the provision is determined at an aggregate level.

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 and the redemption value on 1 July 2008 is amortized over the remaining terms of the individual contracts.

Lease agreements

BNG entered into financial lease agreements under which nearly all risks and benefits attached to the ownership – with the exception of the legal ownership title – are transferred to the lessee. BNG acts as a lessor under these agreements. The balance sheet value of a lease receivable is equal to the discounted value of the lease payments based on the implicit interest rate of the lease agreement and includes any guaranteed residual value. Financial lease receivables are stated in the balance sheet item Loans and advances.

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. Finally, the balance sheet items include transactions that are voluntarily designated as measured at fair value, with value movements being recognized in the income statement (fair value designation). BNG 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 on the basis of fair value;
- it concerns an instrument with an embedded derivative that is not separated.

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

Financial assets available-for-sale

Interest-bearing securities for which there is an active market at the trade date and equity instruments – insofar as they are not recognized in 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 are recognized in equity. 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 amortized interest result 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 cumulative fair value movement is deducted from equity and recognized in the income statement. For the impairment principles, please refer to the section 'Amounts due from banks and Loans and advances'.

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, these items include 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 guarantee contracts
Financial guarantee contracts are initially recognized at fair value, being the received premium, in the Other liabilities item. Subsequent valuation takes place at the higher of either the best estimate of the expenditures required to settle the existing financial obligation on the balance sheet date or the amount of the premium to be amortized. The received premium is accounted for in the Commission income item in the income statement.

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 impairment losses. Impairments are recognized in the income statement. 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.

Amounts due to banks, Funds entrusted, Subordinated loans and Debt securities
Borrowings (including repos) and debt securities are carried at amortized cost in the balance sheet. The amortized cost is adjusted for the effective part of the change in fair value of transactions involved in a fair value hedge. Any of the bank's own debt that is repurchased is removed from the balance sheet, and the difference between the carrying amount and the consideration paid is recognized in the income statement.

Pension provisions and employee benefits
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 contribution toward the premium is recognized in the income statement of the year to which the premium relates. Any additional amounts required are also charged directly to the income statement.

Separate provisions are formed for other employee benefits that qualify as defined pension plans. BNG 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 the income statement. 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 based on calculations by independent actuarial experts. 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. Deferred tax assets are recognized only to the extent in which taxable profits are expected to be available in the near future to compensate 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. 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 are recognized. This revaluation reserve also includes the changes in fair value 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 to Loans and advances. This part of the revaluation reserve is amortized over the remaining maturity of the reclassified assets. The revaluation reserve is adjusted for deferred tax. This deferred tax amount is based on the expected fiscal settlement if the assets concerned were sold on the balance sheet date. In the event of an actual sale, the cumulative revaluation results are recognized in the income statement. 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 relationship. Equity also includes a cash flow hedge reserve in which the unrealized changes in fair value of derivatives resulting from changes in the cross currency basis spread are recognized.

Interest income and Interest expenses
Interest income and Interest expenses for all interest-bearing instruments included in the balance sheet are calculated on the basis of 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 sales value is also recognized under either Interest income or Interest expenses.

Result financial transactions
The Result financial transactions includes the changes in market value of derivatives, hedged items and transactions designated at fair value through the income statement, as well

as the ineffective part of the hedged risk in case of fair value hedge accounting. Gains and losses on the sale of Financial assets available-for-sale are also included in this item. 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.

Foreign exchange result
Assets and liabilities in foreign currencies are translated on the balance sheet date, at the end-of-day closing rates.
All revaluations of monetary items are immediately recognized as gains or losses in the Foreign exchange result.
See also section 'Foreign currencies'.

Commission income and Commission expenses
Commissions and fees paid or received are recognized in full in the income statement in the period in which the services were provided.

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, the central bank 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 loans 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 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.

Amounts in millions of euros

1 Cash and balances with the central bank

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

	31-12-2011	31-12-2010
Cash balances held with the central bank	299	223
Overnight deposits with the central bank	2,600	250
Short term deposits with the central bank	2,250	600
	5,149	**1,073**

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**	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
Short-term loans and current accounts	4	1,110	5,884	8,195	5,888	9,305
Reverse repos	2,797	3,025	502	–	3,299	3,025
Cash collateral	4,029	1,337	–	–	4,029	1,337
Long-term loans	35	40	80,059	73,584	80,094	73,624
Interest-bearing securities	147	142	1,009	1,220	1,156	1,362
Medium Term Notes	963	1,236	134	159	1,097	1,395
Reclassified available-for-sale investments	473	492	3,219	3,724	3,692	4,216
Incurred loss provision	–	–	(32)	(31)	(32)	(31)
Total	**8,448**	**7,382**	**90,775**	**86,851**	**99,223**	**94,233**

The Loans and advances item contains no financial lease agreements as at 31-12-2011. As at 31-12-2010, it includes financial lease agreements in the amount of EUR 56 million.

	2011	2010
Movement in the incurred loss provision		
Opening balance	31	27
Additions during the financial year	1	4
Withdrawals during the financial year	–	–
Closing balance	**32**	**31**

3 Financial assets at fair value through the income statement

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

	31-12-2011	31-12-2010
Derivatives	1,090	860
Loans and advances	911	878
Securities	1,321	1,314
	3,322	**3,052**

The total redemption value of the loans and advances and securities at year-end 2011 is EUR 2,175 million (2010: EUR 2,131 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.

	31-12-2011	31-12-2010
Derivatives involved in a hedge accounting relationship	13,457	10,082
Market value adjustments of assets hedged on a portfolio level	8,062	3,375
	21,519	**13,457**

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.

	31-12-2011	31-12-2010
Public sector	3,743	4,478
Supranational organizations	439	–
Banks	1,190	826
Other financial institutions	790	876
Non-financial institutions	707	172
Investments in participating interests	50	60
	6,919	**6,412**

Transfers without derecognition
The bank sold EUR 650 million worth of bonds (2010: EUR 1,480 million), while simultaneously entering into swap agreements through which it retained entitlement to the cash flows and remained exposed to the risks of these bonds (total return swaps). For this reason, these bonds have not been derecognized. The decrease of EUR 830 million in 2011 was caused by the expiration of the maturity of the bonds in question. There were no new transactions in 2011.

As at 31 December 2011, the balance sheet value includes debt securities which were sold in repurchase transactions amounting to EUR 257 million (2010: EUR 0 million).

6 Investments in associates and joint ventures

	Interest			
	31-12-2011	31-12-2010	31-12-2011	31-12-2010
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*	25%	25%	53	52
			54	**53**
Joint ventures				
– BNG Gebiedsontwikkeling BV, various	see note 39		54	56
			108	**109**

For a description of the associates and joint ventures, please refer to note 39.

7 Property and equipment

The movement in this balance sheet item is as follows:

	Property		Equipment		Total	
	2011	2010	2011	2010	2011	2010
Historical cost						
Value as at 1 January	47	48	12	11	59	59
Investments	–	–	–	1	–	1
Disposals	–	(1)	–	–	–	(1)
Value as at 31 December	47	47	12	12	59	59
Depreciation						
Accumulated depreciation as at 1 January	29	27	9	9	38	36
Depreciation during the year	1	2	1	–	2	2
Accumulated depreciation as at 31 December	30	29	10	9	40	38
Book value as at 31 December	**17**	**18**	**2**	**3**	**19**	**21**

Estimated useful life	
Buildings	33 ⅓ years maximum
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

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

8 Taxation

On the initiative of the Dutch tax authorities, BNG closed two bilateral agreements ('vaststellingsovereenkomsten') on the corporate tax returns for the periods 2005 – 2009 and 2010 – 2012. In 2012, BNG will evaluate the current agreement and decide on its further continuation. The agreements are applicable for the BNG fiscal unit. The outcome of the agreements is that all financial instruments are processed – both commercially and fiscally – 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 fiscal purposes at the lower of either the cost price or the market value. The fiscal result deviates from the commercial result if, on balance, unrealized losses have arisen. If the revaluation reserve increases, the positive amount will benefit 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:

	2011	2010
Profit before tax	339	337
Tax levied at the statutory tax rate	(85)	(86)
Tax adjustment from previous years	3	6
Other results exempt from taxation	(1)	1
Effective tax in the consolidated income statement	**(83)**	**(79)**
Nominal tax rate	25.0%	25.5%
Effective tax rate	24.5%	23.5%

Changes in deferred taxes

2011

	Opening balance	Changes through equity	Changes through net result	**Closing balance**
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**

Changes in deferred taxes

2010

	Opening balance	Changes through equity	Changes through net result	**Closing balance**
Fiscal treatment opening balance sheet	4		(1)	3
Financial assets available-for-sale	49	(50)		(1)
Net investment in a foreign entity	0		(13)	(13)
Fair value changes of (other) financial assets and liabilities through the income statement	(28)		28	0
Total	**25**	**(50)**	**14**	**(11)**

9 Other assets and Other liabilities

	31-12-2011	31-12-2010
Other assets		
Deferred tax asset	97	3
Current tax asset	46	–
Other receivables	58	173
	201	**176**
Other liabilities		
Current tax liability	–	10
Deferred tax liability	–	14
Employee benefits provision	2	2
Other commitments	153	152
	155	**178**

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 current and retired employees. This provision has a long-term character.

The movements in the discounted value of the net liability in relation to the defined benefits are as follows:

	2011	2010
Employee benefits provision		
Net liability as at 1 January	2	2
Movements to the provision	0	0
Net liability as at 31 December	**2**	**2**

10 Amounts due to banks, Funds entrusted and Subordinated loans

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

	31-12-2011	31-12-2010
Deposits from banks	5,037	3,561
Repos	226	–
Cash collateral	2,231	2,476
Funds entrusted	10,919	7,677
Subordinated loans	93	92
	18,506	**13,806**

11 Financial liabilities at fair value through the income statement

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

12 Other financial liabilities

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

13 Debt securities

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

This balance sheet item is comprised as follows:

	31-12-2011	31-12-2010
Debenture bonds and euro notes	88,897	81,714
Medium Term Notes	–	55
Euro Commercial Paper	12,010	10,552
	100,907	**92,321**

14 Equity

Since BNG 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 face 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 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 2011.

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 corrected for taxes. Upon sale of these assets, the 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 positions with different maturities. The maximum remaining maturity runs up to 46 years, with the largest concentrations of remaining maturities varying between 1 and 9 years.

Currency translation account
Foreign exchange differences arising from the translation of the result of a net investment in a foreign entity are recognized in this item.

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 tax.

	31-12-2011	31-12-2010
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	(271)	(62)
Cash flow hedge reserve	(282)	–
Currency translation account	–	(5)
Other reserves	2,049	1,924
Unappropriated profit	256	257
	1,897	**2,259**

	2011	2010
Number of paid up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.15	2.30
Proposed dividend		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	57	121
	64	**128**

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.

	2011	2010
Financial assets at fair value through the income statement	70	68
Derivatives not involved in a hedge accounting relationship	58	86
Derivatives involved in a portfolio fair value hedge accounting relationship	(1,511)	(1,757)
Financial assets available-for-sale not involved in a hedge accounting relationship	39	37
Financial assets involved in a fair value hedge accounting relationship	3,219	3,154
Financial assets at amortized cost	402	276
Other interest income	50	34
	2,327	**1,898**

16 Interest expenses

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

	2011	2010
Derivatives not involved in a hedge accounting relationship	122	115
Derivatives involved in a hedge accounting relationship	(1,466)	(1,828)
Financial liabilities involved in a micro fair value hedge accounting relationship	2,584	2,505
Financial liabilities at amortized cost	601	687
Other interest expenses	24	9
	1,865	**1,488**

17 Results from associates and joint ventures

This item includes results from associates and joint ventures.

	2011	2010
Results from associates	1	1
Results from joint ventures	(1)	1
	0	**2**

For a description of the associates and joint ventures, please refer to note 39.

18 Commission income

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

	2011	2010
Breakdown of the commission income:		
– Income from loans and credit facilities	16	18
– Income from payment services	9	9
– Income from fiduciary activities	8	8
	33	**35**

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 adjustment of financial instruments measured at fair value, with changes in fair value recognized in the income statement. This item also includes the result from sales of financial assets available-for-sale.

	2011	2011	2010	2010
Changes in market value resulting from changes in credit and liquidity spreads				
– Of which investments	(66)		(31)	
– Of which structured loans	(48)		(14)	
		(114)		(45)
Result from hedge accounting				
Financial assets involved in a fair value hedge accounting relationship	5,123		723	
Financial liabilities involved in a micro fair value hedge accounting relationship	(2,169)		(359)	
Derivatives involved in a hedge accounting relationship	(2,943)		(372)	
		11		(8)
Results from sales of financial assets available-for-sale		12		12
Other market value adjustments		2		4
		(89)		**(37)**

21 Addition to the incurred loss provision

The addition to the incurred loss provision amounts to EUR 1 million in 2011 (2010: EUR 4 million). This provision is recognized in the balance sheet item Loans and advances.

22 Other results

	2011	2010
The other results consist of:		
– Foreign exchange result	2	(2)
– Impairment of associates and joint ventures	(6)	(3)
– Income from consultancy services	4	5
	0	**0**

23 Staff costs

	2011	2010
The staff costs are made up of:		
Salaries	23	23
Pension costs	4	4
Social security costs	2	2
Addition to provisions	0	0
Other staff costs	6	6
	35	**35**

24 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.

25 Depreciation

A specification of this item is included in the note on Property and equipment.

26 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.

	2011	2010
Audit of the financial statements	371	320
Other audit related services	159	190
Other non-audit related services	12	12
	542	**522**

27 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.

31-12-2011

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with the central bank	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
Funds entrusted	5,426	792	978	3,748	10,944
Debt securities	12,257	13,435	52,344	22,871	100,907
Subordinated loans	1	3	13	76	93
Total liabilities	**22,553**	**15,079**	**55,086**	**26,695**	**119,413**

31-12-2010

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with the central bank	1,073	–	–	–	1,073
Amounts due from banks	2,525	294	4,086	477	7,382
Financial assets at fair value through the income statement (excluding derivatives)	32	61	715	1,384	2,192
Financial assets available-for-sale	1,167	1,200	1,920	2,125	6,412
Loans and advances	11,090	9,272	35,516	30,973	86,851
Total assets	**15,887**	**10,827**	**42,237**	**34,959**	**103,910**
Amounts due to banks	4,101	965	748	223	6,037
Funds entrusted	3,790	197	1,055	2,635	7,677
Debt securities	13,846	11,270	45,742	21,463	92,321
Subordinated loans	1	3	13	75	92
Total liabilities	**21,738**	**12,435**	**47,558**	**24,396**	**106,127**

28 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 used these amendments to reclassify a part of the instruments in the Financial assets available-for-sale item and transfer them to the items Amounts due from banks and Loans and advances. The intention is to retain these assets for the foreseeable future. If 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 the reclassified assets 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 31-12-2011

	With reclassi-fication	Without reclassi-fication	Effect of reclassi-fication
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

Balance sheet value as at 31-12-2010

	With reclassi-fication	Without reclassi-fication	Effect of reclassi-fication
Financial assets available-for-sale	6,412	10,448	(4,036)
Amounts due from banks	7,382	6,890	492
Loans and advances	86,851	83,127	3,724
Equity	2,259	2,079	180
– of which revaluation reserve	(62)	(242)	180

	31-12-2011		31-12-2010	
	With reclassi-fication	Without reclassi-fication	With reclassi-fication	Without reclassi-fication
Reclassified assets				
Balance sheet value	3,692	3,402	4,216	4,036
Fair value	3,402	3,402	4,036	4,036
Unrealized market value movement in equity	(158)	(448)	(182)	(362)
Unrealized market value movement transferred to equity	24	(195)	27	(9)

29 Risk Section

General
The bank's risk management strategy is aimed at ensuring a reasonable return on investment for its shareholders while maintaining excellent creditworthiness. The bank's procedures for assessing and controlling its risks are in line with the classifications in the Basel II regulations. Credit risks are assessed and controlled by means of the Standardized Approach, while operational risks are managed using the Basic Indicator Approach. As of 2010, internal rating models are applied to assess the creditworthiness of counterparties for the portion of the portfolio that is subject to solvency requirements.
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, liquidity and operational risk. Market risks can be largely offset, but the bank accepts controlled interest rate risks under the assumption that they will yield additional returns.

Developments in 2011

Financial markets
The turmoil that first affected the financial markets in 2008 never really fully subsided and returned with a vengeance in 2011. This is mainly attributable to the debt problems plaguing Europe and the US. Although the bank was able to attract sufficient funding on the money and capital markets, spreads widened over the course of 2011 as unrest caused by the euro crisis increased. These problems did not affect BNG's activities in the money market, where the bank was able to borrow ample funds under highly advantageous conditions. By contrast, BNG has been finding it increasingly difficult to find reliable parties for parking funds for short periods. For this reason, the bank has been increasingly using the ECB to temporarily deposit excess liquidity.

Customer demand for long-term loans and advances remained high. These loans and advances must be refinanced over the course of the maturity period. In view of the fact that there is no way of knowing at which price long-term funding can be drawn in future (and taking into account that the current refinancing of credits issued in the past has become far costlier), the bank has no choice but to charge on current spreads to its customers. However, the bank's rates are still highly competitive in comparison with other financial institutions, a fact reflected in its high market shares. These problems are affecting the entire sector, and the price of loans and advances is higher than it was several years ago. Unlike many of its competitors, BNG has not adopted a more cautious approach to the issue of new credits in response to new capital reserve legislation and the ongoing market turmoil.

Internal rating models for credit risk assessment
In October 2010, the bank starting using the first three rating models for credit risk assessment. These models were developed in-house. The final three models for project development, area development and financial counterparties were implemented in 2011. The models help objectify the increasingly complex internal credit assessment process and allow for an adequate assessment of risk-reward ratios.

The new models will be used to determine internal ratings of the customer portfolio and financial counterparties. Other financial assets in the bank's liquidity portfolio can generally be assessed on the basis of external ratings. There are currently no plans to develop an in-house model for this purpose.

An external validation was conducted in the last quarter of 2011 in order to assess the various models introduced in 2010. The resulting recommendations will be prioritized in 2012, and will serve as a basis for adjustment of the models and/or processes related to their use where necessary.

Risk appetite
In accordance with the Banking Code, 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 and the various stakeholder interests on which these parameters are based. The risk appetite is formally approved 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. Over the course of 2011, the risk appetite statement was communicated and discussed across the full breadth of the organization by means of specially themed sessions. These sessions were also attended by members of the Supervisory Board. A new version of the 2012 risk appetite was prepared in the autumn of 2011 on the basis of input from senior management, and discussed with the Supervisory Board. In 2012, the

focus will be on organizational implementation. The year will also see completion of the monitoring program that allows the bank to determine whether it is still within the limits of its risk appetite. Risk appetite is a dynamic factor, and will remain the focus of continual attention.

Basel III

The Basel III regulations will be introduced in various stages over the course of the 2012-2018 period. The new regulations will have a significant impact on the bank's business model, and their implementation will take up a great deal of organizational capacity. The introduction of a leverage ratio will have the most far-reaching effects on the bank's operations. This leverage ratio does not take into account the degree of risk or the solvency weighting of credits. This will have a disadvantageous effect on BNG, which grants large amounts of loans not subject to solvency requirements. The definitive leverage ratio — and relevant capital reserve procedures – will be determined at a later date. With the current threshold set at 3%, the bank will now already be forced to start accumulating greater capital reserves. To achieve this, an adjusted dividend policy is proposed. Efforts are also underway to assess the potential for attracting (a limited amount of) hybrid capital.

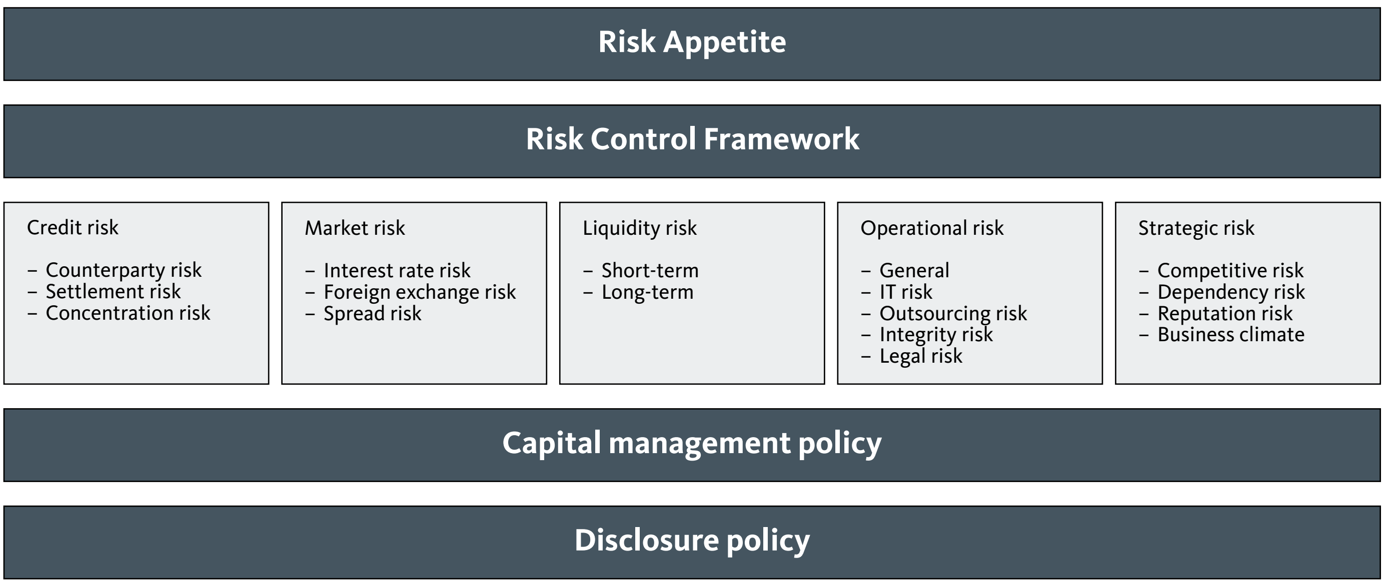
In terms of the risk-weighted solvency ratio, BNG currently complies with all known requirements due to the bank's policy of maintaining a minimum value of 18%. Other banks have seen their solvency risk increase rapidly due to market expectations in combination with Basel III and additional requirements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

Area development project investments

BNG 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 not invested any capital in such projects since. Some of the relevant projects are currently undergoing difficulties. The resulting effects on the bank's income statement are expected to be relatively limited.

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 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 in Management Board meetings 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.

Risk management is concentrated in the Risk Control department. This department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of credit risk, market risk, liquidity risk, operational risk and other risks. In addition, the Credit Risk Assessment department 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 in 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. These discussions cover the various aspects mandated by the Banking Code.

Credit risk

Definitions
Credit risk is defined as the risk that a counterparty will fail to meet its (financial) obligations and includes settlement risk, counterparty risk and concentration risk.
- Counterparty risk is defined as 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 is defined as 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 is defined as the extent to which a bank's exposure is spread over its total number of debtors and the variety between these debtors.

General
BNG has an internal risk management organization that serves to control its credit risks. This organization reflects the growing 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.
- 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 involved credit risk. 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 from its 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 great 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.The issue of all loans and advances subject to solvency requirements is preceded by a creditworthiness analysis. This analysis serves to determine the risk and allocate the relevant internal rating. This rating is then applied to determine the scope of the decision-making process and maximum acceptable credit risk. These risks are almost always mitigated by securities and covenants.
BNG also applies a review process for all loans and advances subject to solvency requirements. Depending on the customer's internal rating and the nature of the credit lending, this procedure will involve at least one annual creditworthiness analysis and updating of the internal rating.

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

Credit models
The six credit rating models developed by the bank have all been implemented since 2011. These models were designed for the following sectors:
- Social housing;
- Healthcare and Education;
- Energy, Water, Telecom, Transport, Logistics and the Environment;
- Project financing: two models, one for AD (area development) and one for DBFM (design, build, finance & maintenance);
- Financial counterparties.

By the end of 2012, all eligible parties will have been rated using the internal credit rating models introduced in 2010 and 2011. The three models that were not validated in 2011 will be validated in 2012 as soon as they have been in use for one year. If the models prove to be sufficiently stable – to be determined on the basis of this independent external validation and other assessments – it is intended to extend their application from credit lending acceptance (and pricing) to assessment of the economic capital needed to cover credit risks.

Settlement risk
Exposure to settlement risks is mainly limited to transactions with financial counterparties. In addition to the mitigation of 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's lending activities are subject to a certain 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 WSW (Social Housing sector) and WfZ (Healthcare sector) guarantee funds. Loans and advances subject to solvency requirements are subject to sector-specific lending policies and limits designed to minimize concentration risks.

Concentration risk also comprises country risk. BNG 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. Until now, the bank has not suffered any credit losses abroad.
At the end of 2011, the bank's total foreign exposure (expressed in balance sheet value) totaled EUR 14.6 billion, of which EUR 10.1 billion consisted of long-term credits. This represents 7.4% of the balance sheet total. At the end of 2011, the bank was exposed to the following risks from financially weaker EU countries – also known as the GIIPS countries:

31-12-2011

	AAA	AA	A	BBB	BB	B	Total
Ireland							
ABS/MBS		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					124	60	184
Covered bonds				25			25
IBS with government guarantee					137		137
			78	25	261	60	424
Spain							
Government bonds		50					50
ABS/MBS	259	372	233		24	39	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	33	39	2,468
Total exposure	**632**	**1,471**	**1,688**	**252**	**294**	**99**	**4,436**

These exposures consist of government bonds, covered bonds, loans and advances to statutory clients and investments in the lowest-risk tranches of asset backed securities (ABS) and mortgage backed securities (MBS). The Irish exposure consists of securitization exposure of claims in Germany, Spain and Portugal.
BNG is closely monitoring developments in the financially weaker countries. The situation in Portugal is cause for special concern. 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. The 2011 and 2010 cash flows for all foreign loans were received on time and in full. As of yet, the bank has not had to reserve any funds as a provision for future cash flows.

All loans reported under the items 'Loans and advances' and '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. The comparative figures have been adjusted accordingly.

As at 31-12-2010, the bank was exposed to the following risks from financially weaker EU countries.

	31-12-2010				
	AAA	AA	A	BBB	Total
Ireland					
ABS/MBS	395	20			415
Italy					
Government bonds		1,364			1,364
ABS/MBS	189	93	16		298
Loans and advances		35			35
IBS with government guarantee			32		32
	189	1,492	48	0	1,729
Portugal					
ABS/MBS	84				84
Loans and advances			215		215
Covered bonds		25			25
IBS with government guarantee			140		140
	84	25	355	0	464
Spain					
Government bonds	50				50
ABS/MBS	571	343	55	41	1,010
Loans and advances		112	9		121
Covered bonds	1,094	135			1,229
IBS with government guarantee	76		46		122
Medium Term Notes		80			80
	1,791	670	110	41	2,612
Total exposure	**2,459**	**2,207**	**513**	**41**	**5,220**

Credit risk in financial assets

The following tables provide a quantitative overview of the credit risk at the end of 2011.

Financial assets	31-12-2011	31-12-2010
	Balance sheet value	Balance sheet value
Amounts due from banks and Loans and advances	99,223	94,233
Financial assets at fair value through the income statement	3,322	3,052
Financial assets available-for-sale	6,919	6,412
Other financial assets*	21,519	13,457
	130,983	117,154
Of which derivatives and market value adjustments hedge accounting*	(22,609)	(14,317)
	108,374	**102,837**

* The balance sheet value of Other financial assets includes the market value adjustment by virtue of hedge accounting.

Breakdown by market segments

	31-12-2011 Balance sheet value	31-12-2011 In percent	31-12-2010 Balance sheet value	31-12-2010 In percent
Public sector	33,128	31%	33,378	33%
Social housing	42,920	40%	40,085	39%
Energy, Water and Telecom	2,083	2%	2,074	2%
Healthcare	7,747	7%	7,325	7%
Transport, Logistics and the Environment	1,914	2%	1,801	2%
Education	1,144	1%	1,146	1%
Credit institutions	8,978	8%	6,616	6%
Other financial institutions	7,683	7%	8,073	8%
Miscellaneous	2,777	2%	2,339	2%
	108,374	**100%**	**102,837**	**100%**

Of which subject to solvency requirements

	31-12-2011 Balance sheet value	31-12-2011 In percent	31-12-2010 Balance sheet value	31-12-2010 In percent
Public sector	682	3%	677	3%
Social housing	1,195	6%	1,222	6%
Energy, Water and Telecom	2,033	10%	2,017	10%
Healthcare	2,292	11%	1,919	9%
Transport, Logistics and the Environment	948	4%	829	4%
Education	1,002	5%	965	5%
Credit institutions	4,947	24%	5,293	25%
Other financial institutions	6,016	29%	6,426	30%
Miscellaneous	1,644	8%	1,628	8%
	20,759	**100%**	**20,976**	**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, partly due to the applicable collateral requirements. The loans subject to solvency requirements also include 18 (2010: 9) counterparties, whose individual exposure represent more than 10% of the bank's BIS qualifying capital. This increase is mainly attributable to new loans and advances issued to (academic) hospitals and a university in 2011.

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. These items have been entered at nominal value.

	31-12-2011	31-12-2010
Cash and balances with the central bank	5,149	1,073
Derivatives	14,547	10,942
Amounts due from banks and Loans and advances	99,223	94,233
Financial assets at fair value through the income statement (excluding derivatives)	2,232	2,192
Financial assets available-for-sale	6,919	6,412
Contingent liabilities	482	478
Irrevocable facilities	8,419	10,092
	136,971	**125,422**

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.

Credit equivalents of derivatives on the assets side of the balance sheet

The credit risk from derivatives is relatively small despite the fact that principal amounts totaled EUR 224 billion on 31 December 2011 (2010: EUR 212 billion). With the exception of currency derivatives, these contractual principal amounts merely serve as accounting quantities and generally 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 a future credit risk spread.

Contracts with a 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. On 31 December 2011, the credit equivalent of the derivatives portfolio (weighted against the debtor's risk level) totaled EUR 1,052 million (2010: EUR 817 million).

	31-12-2011	31-12-2010
Credit equivalents		
Interest contracts	1,600	1,631
Currency contracts	2,726	2,510
Total	4,326	4,141
Cash collateral received	2,086	2,036
Total after deduction of cash collateral	**2,240**	**2,105**

These figures reflect netting of the positive and negative market value of contracts for each counterparty.

Maturity analysis of past due assets without impairment

	31-12-2011	31-12-2010
Less than 31 days	2	1
31 to 60 days	2	0
61 to 90 days	0	1
Over 90 days	3	0
Total	**7**	**2**

The past due assets relate almost entirely to the Loans and advances item.

Financial instruments by categories

31-12-2011

	Financial assets 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 involved in portfolio fair value hedge accounting	Financial assets and liabilities involved in micro fair value hedge accounting	Financial assets and liabilities at amortized cost	**Total**
Assets								
Cash and balances with the central bank							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					70,409	215	20,151	90,775
Total assets	**2,232**	**1,090**	**13,457**	**1,190**	**85,650**	**215**	**32,298**	**136,132**
Liabilities								
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 loans							93	93
Total liabilities	**–**	**628**	**14,367**	**–**	**–**	**82,933**	**36,480**	**134,408**

Financial instruments by categories

31-12-2010

	Financial assets 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 involved in portfolio fair value hedge accounting	Financial assets and liabilities involved in micro fair value hedge accounting	Financial assets and liabilities at amortized cost	**Total**
Assets								
Amounts due from banks					1,724		5,658	7,382
Financial assets at fair value through the income statement	2,192	860						3,052
Other financial assets			10,082		3,375			13,457
Financial assets available-for-sale				2,320	4,092			6,412
Loans and advances					66,398	162	20,291	86,851
Total assets	**2,192**	**860**	**10,082**	**2,320**	**75,589**	**162**	**25,949**	**117,154**
Liabilities								
Amounts due to banks							6,037	6,037
Financial liabilities at fair value through the income statement		649						649
Other financial liabilities			9,320					9,320
Debt securities						71,478	20,843	92,321
Funds entrusted						2,130	5,547	7,677
Subordinated loans							92	92
Total liabilities	**–**	**649**	**9,320**	**–**	**–**	**73,608**	**32,519**	**116,096**

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 customers 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 289 million negative accumulated (2010: EUR 168 million negative) and EUR 121 million negative over 2011 (2010: EUR 55 million positive).

Changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit risk spreads totaled EUR 19 million negative accumulated (2010: EUR 10 million negative) and EUR 9 million negative over 2011 (2010: EUR 1 million positive).

Interest-bearing securities portfolio (IBS)
BNG 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 below table 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.

31-12-2011

	AAA	AA	A	BBB	BB	B	Total
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	24	39	1,859
Miscellaneous	342	252	120	167			881
	4,055	**2,218**	**1,759**	**419**	**161**	**39**	**8,651**
Total	**6,830**	**3,207**	**2,819**	**419**	**161**	**39**	**13,475**

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. The comparative figures have been adjusted accordingly.

31-12-2010

	AAA	AA	A	BBB	Total
Domestic					
Government bonds	733				733
IBS with government guarantee	273				273
IBS with National Mortgage Guarantee	1,187	69	437		1,693
Covered bonds	190				190
Bouwfonds		1,198			1,198
Medium Term Notes			174		174
ABS/MBS	1,141				1,141
Miscellaneous	142	255	113		510
	3,666	**1,522**	**724**	**–**	**5,912**
Foreign					
Government bonds	666	1,544			2,210
IBS with government guarantee	843	50	186		1,079
Covered bonds	1,244	160			1,404
Medium Term Notes	58	80			138
ABS/MBS	1,323	456	71	41	1,891
Miscellaneous	73	342	90	225	730
	4,207	**2,632**	**347**	**266**	**7,452**
Total	**7,873**	**4,154**	**1,071**	**266**	**13,364**

Market risk

Definitions
Market risk is defined as existing or future threats to the institution's capital and results as a result of market price fluctuations. There are various forms of market risk. BNG 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 applies an active interest rate position policy, aimed at achieving additional return on equity by benefiting from interest rate fluctuations. A precondition to this is the controlling of the risks associated with these interest rate positions, in terms of both economic value of the volatility of annual results and compliance with all applicable legislation. The Executive Board is responsible for BNG's interest rate position policy. The Asset & Liability Committee (ALCO) (in which all Executive Board members participate) is responsible for implementing this policy. In addition to Executive Board members, the 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 in addition manages the bank's interest rate position. Treasury is also responsible for the market data that serves as a basis for pricing. In order to ensure functional separation, the revaluation of financial instruments is conducted by the Processing Directorate, with Risk Control charged with the substantive aspects of the revaluation process. BNG 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 consist of duration, susceptibility to interest rate fluctuations per time interval and Value at Risk. 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 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 instantanious parallel interest rate shift 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 and take measures if necessary. The bank also applies an internal threshold value which serves as an early warning. The bank's market risk policy also specifies that the duration may not exceed 10.
The table below outlines the effect of an instantaneous interest rate shock at the end of 2011. It provides an overview of the resulting market value fluctuation. This fluctuation is then broken down in terms of its effects on the bank's results. Finally, the right column outlines the market value fluctuation's estimated effect on the bank's results after 2012.

The effect (before tax) of an instantaneous parallel interest rate shift on the market value at 31 December 2011 (31 December 2010).

	Total market value movement		Impact on the income statement		Impact on equity		Long-term impact on the income statement	
	2011	2010	2011	2010	2011	2010	2011	2010
Interest rate shock								
+200 bp	(224)	(268)	+30	(13)	(5)	(14)	(249)	(241)
–200 bp	+70	+165	(49)	+3	+5	+15	+114	+147
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 30 million positive is immediately reflected in the annual result, with a EUR 254 million negative impact on future years. Of this total amount, EUR 5 million negative immediately ends up in the bank's equity.
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 profits 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, which is designed to ensure an optimally stable annual result. Complex tailor-made products are less suited to this form of hedge accounting, whereby the value fluctuations of specific assets are recorded in the results at fair value.

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 currency 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's interest rate position is determined over its entire portfolio of assets and liabilities. The bank's interest rate position is valued on the basis of a yield curve made up of market-based swap rates. Due to their relatively safe nature, the interest-bearing securities on BNG's balance sheet have traditionally had extremely low credit and liquidity risk spreads in comparison with this swap curve. 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 including risk spreads.

Market risk management developments

The turbulent market conditions and the low absolute interest rate levels held the bank's interest rate position relatively low in 2011. In the current turbulent market, unexpected events can also cause major disruptions resulting in additional risk.
The bank will evaluate its interest rate risk management in 2012. Amongst other aspects, the evaluation will focus on process governance and the processes for taking and measuring interest rate positions. In view of the major shifts in market conditions over the past few years, processes and instruments are expected to be adjusted. At minimum, 2012 attention points will include a scenario analysis (including stress testing) and the valuation of financial instruments.

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 (due to fluctuations in its own creditworthiness) 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 over the past few years have confirmed, this form of risk can occur very suddenly and rapidly destroy a bank 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 for various time periods.

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 prognoses. The bank's liquidity position is subject to a system of limits.

The strength of BNG's liquidity position is partly due to the fact that its balance sheet is largely made up of assets accepted as collateral by the central bank. The bank's collateral pledged ensures access to ample lending capacity. A growing portion of the bank's assets is also explicitely held for liquidity purposes.

The bank's excellent creditworthiness and good reputation ensure continued access to the international financial markets, even under difficult market conditions. BNG's liquidity position is well within the requirements applied by the central bank. In addition to ensuring that the bank can meet its short-term payment obligations, BNG's liquidity policy is also aimed at maintaining its excellent level of creditworthiness. To this end, the bank monitors a range of factors including its long-term liquidity needs. BNG'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 day-to-day operational liquidity management. Risk Control independently reports to ALCO on the use of predetermined limits.

Developments

The situation on the money and capital markets remained tense in 2011, and saw further decline toward the end of the year. Thanks to BNG's continued status as a safe haven for other banks, there was no shortage of short-term funding throughout the year. As a result, this short-term funding was priced at extremely attractive rates. The spread for long-term funding was slightly higher in comparison with 2010. Toward the end of 2011, the capital markets' performance deteriorated as a result of the continued European debt crisis. Despite these difficulties, the bank managed to maintain an adequate liquidity profile during this period.

BNG is confident it will be able to comply with the new Basel III liquidity requirements on the basis of its current business model. Over the course of 2011, the bank gained experience in applying the new liquidity risks to be anchored in legislation over the coming years. The fact that the rising price of liquidity will have to be charged on through loans and advances applies to the entire market. This means there is no reason to expect any negative impact on BNG's competitive position.

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 see notes 33 and 34.

31-12-2011

	Up to 3 months	3-12 months	1-5 years	Over 5 years	**Total**
Cash and balances with the central bank	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)
Funds entrusted	(5,363)	(796)	(1,041)	(7,651)	(14,851)
Debt securities	(12,200)	(13,442)	(54,938)	(30,197)	(110,777)
Subordinated loans	(1)	(3)	(16)	(158)	(178)
Other liabilities	(129)	–	–	–	(129)
Total liabilities	(22,563)	(15,101)	(57,776)	(38,006)	(133,446)
Gross balanced derivatives					
Assets	10,980	11,915	35,826	25,896	84,617
Assets amounts receivable	(9,862)	(10,072)	(27,476)	(19,411)	(66,821)
Assets amounts payable	1,118	1,843	8,350	6,485	17,796
Liabilities	2,300	2,169	8,093	23,982	36,544
Liabilities amounts receivable	(3,279)	(3,611)	(15,404)	(31,772)	(54,066)
Liabilities amounts payable	(979)	(1,442)	(7,311)	(7,790)	(17,522)
Total derivatives	139	401	1,039	(1,305)	274
General total	**(3,773)**	**(1,743)**	**(8,211)**	**26,495**	**12,768**

					31-12-2010
	Up to 3 months	3-12 months	1-5 years	Over 5 years	**Total**
Cash and balances with the central bank	1,073	–	–	–	1,073
Amounts due from banks	2,527	347	4,384	928	8,186
Financial assets at fair value through the income statement (excluding derivatives)	(33)	79	837	3,013	3,896
Financial assets available-for-sale	1,161	1,217	2,057	3,587	8,022
Loans and advances	11,110	9,612	39,653	54,098	114,473
Other assets	76	–	–	–	76
Total assets	15,914	11,255	46,931	61,626	135,726
Amounts due to banks	(4,102)	(972)	(997)	–	(6,071)
Funds entrusted	(3,759)	(201)	(950)	(5,600)	(10,510)
Debt securities	(13,811)	(11,372)	(49,318)	(30,329)	(104,830)
Subordinated loans	(1)	(3)	(16)	(163)	(183)
Other liabilities	(79)	–	–	–	(79)
Total liabilities	(21,752)	(12,548)	(51,281)	(36,092)	(121,673)
Gross balanced derivatives					
Assets	7,981	5,087	30,191	29,710	72,969
Assets amounts receivable	(6,812)	(3,614)	(24,398)	(24,395)	(59,219)
Assets amounts payable	1,169	1,473	5,793	5,315	13,750
Liabilities	5,429	5,307	14,063	25,194	49,993
Liabilities amounts receivable	(6,355)	(6,937)	(19,520)	(28,867)	(61,679)
Liabilities amounts payable	(926)	(1,630)	(5,457)	(3,673)	(11,686)
Total derivatives	243	(157)	336	1,642	2,064
General total	**(5,595)**	**(1,450)**	**(4,014)**	**27,176**	**16,117**

Operational risk

Definitions

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

- IT risk is the risk that business processes and information systems are protected in an insufficiently sound, discontinuous or unsatisfactory manner, supported by information technology.
- 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 for managing operational risks in the institution's processes and systems, and 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 acceptable and manageable. To this end, each process is periodically evaluated by means of self assessments in order to establish the relevant (latent) operational risks. Internal and external background analyses are conducted in order to improve the quality of the self assessments. Supplementary control measures will be proposed where necessary, and measures will be taken to monitor their timely implementation. Residual risks will be communicated to the responsible managing director. The managing director will, if applicable, advise the Executive Board on acceptance of the residual risks. The IAD conducts independent assessments in supplement to the risk self assessments and internal control measures, in order to determine the existence and performance of control measures. The compliance officer conducts periodical integrity analyses.

BNG registers all operational incidents upwards of a predetermined scale. To this end, employees involved in the operational process report all 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. Once every four months, Risk Control reports to the Executive Board, management and various department heads. It provides annual reports on incidents with an (potential) impact of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. The incident report on 2011 contained 4 items (2010: 3).

IT risk

BNG'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 resulting damages or restoring the desired situation as quickly as possible. According to the outcome of the annual fallback test held in 2011, 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 systems and supporting organizational structure had reached its maximum capacity. After having conducted a preliminary study and selection procedure, the bank opted for the phased implementation of a supplementary risk management system. The first module was successfully implemented in 2011. The bank now has sufficient functionality to administer complex credit facilities and conduct the necessary limit monitoring. In follow-up to these efforts, a new collateral administration system is set to be implemented in 2012.
Other modules of the same system can be used to implement functionality for asset & liability management, liquidity management and scenario analysis. The system also contains modules in order to prepare external reports for the regulator. In order to limit the risk of non-performance, no final decisions will be made with regard to implementation pending extensive preliminary studies.

Outsourcing risk

A large portion of BNG's IT activities has been outsourced to Centric FSS. Outsourced activities include payment services and current account administration, the computing center and workstation management. BNG's activities are linked to those carried out by Centric FSS via service level agreements and BNG's internal demand organization.
Centric FSS's operational services to BNG over the course of 2011 were of a satisfactory standard. Key ongoing projects include the updating of the payment transaction platform, redesign of the workspace on the basis of new software versions and a new document management system. Due to growing system complexity, the necessary knowledge transfer and distribution require an increasing amount of time and attention. In order to address this development, the size of the IT department will be expanded over the course of 2012. The gathering and retention of knowledge on IT also plays an increasingly important role for the users of the systems.

Integrity risk

The bank regards integrity as a key part of its operations. The BNG Company Code serves as a guideline for all actions undertaken by BNG and its employees. BNG 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. In addition to its own operations and those of its subsidiaries, the bank also applies ethical standards to the actions of its customers and suppliers.
To this end, it has formulated regulations on the acceptance, identification and monitoring of customers and transactions as a part of Customer Due Diligence.

Legal risk

With the growing intricacy of transactions and agreements, the timely and thorough administration of all contractual stipulations is all the more urgent. However, this process has also become more complex. This places great pressure on the operational process. The introduction of the aforementioned risk management system serves as a basis for further improvements. For example, the new system establishes a clearer link between the contract and the automated capturing of the contract. The bank is aiming to implement key improvements in the area of commitments and the management of collateral and covenants in 2012. The continual updating of management procedures is essential in order to ensure the enforceability of BNG's contractual agreements with its customers.

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) 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 environmental changes in terms of 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 serviced by BNG is relatively inaccessible for newcomers: with relatively low profit margins on loans and advances, scale and efficiency are key to a profitable business model. Parties striving to maximize their profits will thus enter this market on a limited scale in view of their higher purchase price. As a result, the bank's exposure to competitive risk is limited.
This does not apply to dependency risk. BNG is highly dependant on governmental developments. The bank is involved in these activities at various levels in an attempt to ensure rapid response to any changes on its playing field. The bank's dependency on societal developments (in areas such as the social housing sector) is more significant than its dependency on indicators such as the stock exchange climate or economic growth. Thanks to its strong financial position and relatively safe loan portfolio, the bank has a relative advantage over its competitors during times of economic stress. Despite the bank's limited maneuvering space on the societal playing field, the recent turmoil on the financial markets underlines the need for a sectoral bank such as the BNG, which continued to be available to its clients.
The debt problems currently affecting the euro zone are a source of concern. An undisirable deterioration of the Netherlands' creditworthiness would negatively impact the bank's position on the international capital market. The same applies to any situation in which investors decide to shun the euro zone.

Reputation risk

BNG views its customers as professional market participants. Within this context, the bank feels a duty to take the welfare of its customers into consideration. Among other factors, this is necessitated by the rapidly growing complexity of financial products and regulations. The bank will stress this level of complexity when it receives requests for financing constructions deemed unsuitable for the relevant customer. This mainly concerns smaller organizations that 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.
Naturally, reputation risk also applies to the bank's other stakeholders, such as investors and shareholders. It therefore makes up an integral 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

According to Basel II regulations, banks must apply a formalized capital management policy. These policies formalize the bank's approach to the relationship between quantifying expected and unexpected risks and determining how much economic capital will be needed to bear these risks.

The capital management policy serves to ensure that the bank can meet its financial commitments without delay, even under extremely unfavorable circumstances. This involves identifying the relevant risks, quantifying these risks, calculating the capital requirements and assessing capital adequacy. Capital limits have been set for market risk, credit risk and operational risk. These limits are referred to as trigger ratios. 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 2011.

The bank's capital management policy is formalized in a capital management plan. The bank is engaged in a dialog with regulators on its capital management policy (the supervisory review process). The 2011 capital management policy was the first to feature guidelines on the internal allocation of capital. This capital management policy was assessed by the regulator. This assessment did not bring to light any grounds for the accumulation of additional capital reserves.

Solvency

The DNB standards for key equity ratios are derived from the solvency guidelines applied by the European Union and the Basel Committee on Banking Supervision. These ratios compare the bank's total assets and core capital to the sum of all risk-weighted assets and off-balance sheet items plus a spread to cover operational risk.

The minimum percentages for total assets 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 purchasing costs. This can only be achieved by maintaining the highest 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%.

As a result of Basel III regulations, the bank has decided to increase its BIS Tier 1 ratio to a level in excess of 18%. This decision anticipates any future decisions to lower the leverage, and will help ensure that BNG can continue to maintain a higher ratio than its competitors.

	31-12-2011		31-12-2010	
	Minimum required	Present	Minimum required	Present
Total capital	932	2,431	895	2,280
BIS total capital ratio	8%	21%	8%	20%
Core capital	466	2,337	447	2,190
BIS Tier 1 ratio (core capital ratio)	4%	20%	4%	20%

Capital requirements and risk-weighted assets

	31-12-2011		31-12-2010	
	Basel II Risk-weighted amount	Capital requirements	Basel II Risk-weighted amount	Capital requirements
Credit risk				
Standardized approach (divided into categories)				
Regional governments	6	0	6	0
Public authorities	431	35	370	30
Institutions	829	66	983	79
Corporations	7,257	581	6,830	546
Associations, foundations et cetera	748	60	748	60
Covered bonds	220	18	159	13
Securitizations	1,167	93	1,131	90
Participations in investment funds	68	5	70	6
Other	165	13	226	18
	10,891	871	10,523	842
Market risk				
Standardized approach	–	–	–	–
Operational risk				
Basic indicator approach	756	61	658	53
Total	**11,647**	**932**	**11,181**	**895**

30 Fair value of financial instruments

Fair value is the amount for which an asset can be exchanged or a liability settled 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. Financial instruments that are not traded in an active market or for which no market is maintained are measured on the basis of quoted prices of comparable instruments.

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. Input for these models is based on objectively verifiable market prices.

The bank uses so-called spread curves to determine the fair value of financial instruments that involve credit and liquidity risk and for which a theoretical valuation is required. These spread curves are constructed on the basis of the 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 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 also 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 case of complex hybrid 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 value of its constituent parts.

	31-12-2011 Balance sheet value	31-12-2011 Fair value	31-12-2010 Balance sheet value	31-12-2010 Fair value
Cash and balances with the central bank	5,149	5,149	1,073	1,073
Amounts due from banks and Loans and advances	99,223	108,592	94,233	99,418
Financial assets at fair value through the income statement	3,322	3,322	3,052	3,052
Financial assets available-for-sale	6,919	6,919	6,412	6,412
Other financial assets*	21,519	13,457	13,457	10,082
Total financial assets	**136,132**	**137,439**	**118,227**	**120,037**
Amounts due to banks and Funds entrusted	18,413	18,554	13,714	13,819
Subordinated loans	93	137	92	124
Debt securities	100,907	101,369	92,321	92,870
Financial liabilities at fair value through the income statement	628	628	649	649
Other financial liabilities	14,367	14,367	9,320	9,320
Total financial liabilities	**134,408**	**135,055**	**116,096**	**116,782**

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.
Level 3: valuation based on valuation techniques using non-observable market data.

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**

* The Other financial assets item includes a market value adjustment of EUR 8,062 million positive (2010: EUR 3,375 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 accounting recognition of the effective parts of the hedged market value movements. Please refer to note 31 for a description of the way in which market risks are hedged with derivatives.

31-12-2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through the income statement	–	2,481	571	3,052
Financial assets available-for-sale	2,317	3,533	562	6,412
Other financial assets	–	10,082	–	10,082
Total assets	**2,317**	**16,096**	**1,133**	**19,546**
Financial liabilities at fair value through the income statement	–	649	–	649
Other financial liabilities	–	9,320	–	9,320
Total liabilities	**–**	**9,969**	**–**	**9,969**

In 2011, several foreign transactions with a so-called monoliner guarantee were transferred from level 2 to level 3. BNG recognized the (limited) value of these guarantees in 2011 on the basis of non-observable market data. The major part of the valuation is based on observable market data.

The remaining transactions in level 3 mainly concern interest-bearing securities with NHG mortgages as collateral. To the bank's best knowledge, there was no trade in these securities in 2010 and 2011. Due to the lack of trade in these securities, the observable market data is not representative of the current fair value. The fair value labeled as obtained by non-observable market information is partly based on observable market data that has been modified following management assumptions concerning liquidity.

Statement of changes in Level 3 assets and liabilities 2011

	Financial assets and liabilities at fair value through the income	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**

Statement of changes in Level 3 assets and liabilities 2010

	Financial assets and liabilities at fair value through the income	Financial assets available-for-sale
Opening balance	156	147
Results:		
– Through the income statement	(14)	1
– Unrealized value movement	–	(14)
Investments	–	7
Cash flows	(22)	(7)
Transferred to Level 2	–	–
Transferred from Level 2	451	428
Closing balance	**571**	**562**

The table below shows the sensitivity of the balance sheet value of Level 3 assets to a parallel interest rate movement.

31-12-2011

	Balance sheet value	Impact on balance sheet value of an interest rate movement of			
		+ 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
	1,497	**(9)**	**9**	**(80)**	**97**

31-12-2010

	Balance sheet value	Impact on balance sheet value of an interest rate movement of			
		+ 10 bp	− 10 bp	+ 100 bp	− 100 bp
Financial assets at fair value through the income statement	571	(2)	2	(20)	21
Financial assets available-for-sale	562	(1)	1	(13)	14
	1,133	**(3)**	**3**	**(33)**	**35**

31 Hedging of risks with derivatives

BNG applies economic hedging in order to mitigate foreign exchange risks and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is strictly adhered to and is monitored on a daily basis. Foreign exchange and interest rate risks are principally hedged with the aid of derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are as aligned as possible with the actual economic hedging. BNG 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 issues denominated in foreign currencies, 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, issues in foreign currencies are converted into 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, cash flow hedging is also applied to these transactions to protect the bank's result against possible variability in future cash flows. As a result of the great uncertainties in the money and capital markets, mostly related to the European debt crisis, a shortage of funding in primarily US dollars arose for European financial institutions. 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 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 of the US dollar cash flows from the debenture 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 same period in the income statement. In 2011, BNG recognized EUR 282 million negative as effective value adjustment of hedging instruments in equity by virtue of cash flow hedging. Before accounting for deferred taxes, the amount was EUR 377 million negative. For the period up to 1 July 2011, an amount of EUR 6 million negative was recognized in the income statement as value adjustments of the hedging instruments.

With 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, the effectiveness of portfolio hedging, like that of micro hedging, has been almost perfect in recent years. To prevent higher complexity as well as additional hedging costs, choices were made in accordance with the bank's policy 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 in the balance sheet item Other financial assets. With both types of hedging, the derivatives in question are measured at fair value and included in the Other financial assets and Other financial liabilities items.

Although BNG 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 the derivatives that are not involved in a hedge accounting relationship are stated in the balance sheet item Financial assets at fair value through the income statement if the value is positive, or the balance sheet item Financial liabilities at fair value through the income statement if the value is negative. For the few derivatives where this is the case, the hedged item is also designated as a financial asset at fair value through the income statement so that, on balance, the volatility of the result arising from derivatives is limited.

The derivatives are included in various balance sheet items, depending on their 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.

	31-12-2011	31-12-2010
Derivatives involved in a hedge accounting relationship		
Other financial assets	13,457	10,082
Other financial liabilities	(14,367)	(9,320)
Derivatives not involved in a hedge accounting relationship		
Financial assets at fair value through the income statement	1,090	860
Financial liabilities at fair value through the income statement	(627)	(649)

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

	31-12-2011		31-12-2010	
	Notional amount	Fair value	Notional amount	Fair value
Other financial assets				
Swaps	99,910	13,457	88,764	10,082
Other financial liabilities				
Swaps	98,896	(14,367)	98,136	(9,320)
Financial assets at fair value through the income statement				
Swaps	6,636	334	8,504	572
Forwards	13,632	674	6,229	231
Options	802	82	968	57
	21,070	1,090	15,701	860
Financial liabilities at fair value through the income statement				
Swaps	2,121	(520)	2,746	(411)
Forwards	568	(14)	5,548	(171)
Options	1,068	(93)	1,137	(67)
	3,757	(627)	9,431	(649)

BNG receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2011 this collateral amounted to EUR 2,231 million (2010: EUR 2,476 million).

32 Related parties

Transactions with related parties
The Dutch State owns 50% of the outstanding shares of BNG. Transactions with the State include publicly traded bonds. BNG 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 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 709,977. The average interest rate on the loan is 4.3%. The loan was granted under BNG's standard staff terms and conditions.

BNG'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 bng.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 shares or options and receive no additional remuneration through subsidiaries of the bank.

As of 2004, the variable remuneration has been set at a maximum of 35% of the fixed remuneration. The award 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 2011 variable remuneration targets resulted in an allowance of 93% of the maximum variable remuneration (2010: 98%). The Executive Board members received an allowance for business expenses of EUR 3,900 in 2011 (2010: EUR 3,900). This allowance will not be adjusted in 2012.

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 irrespective of the company's result. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit & 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 explained in the statement 'Remuneration of Supervisory Board members'. The Supervisory Board members received an expense allowance of EUR 1,500. Members who were part of 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)*

	2011	2010
H.O.C.R. Ruding, Chairman	31	31
Mrs Y.C.M.T. van Rooy, Vice-chairman and Secretary	23	23
R.J.N. Abrahamsen	23	23
H.H. Apotheker	23	23
Mrs H.G.O.M. Berkers	29	29
Mrs S.M. Dekker	23	23
W.M. van den Goorbergh	29	29
R.J.J.M. Pans	23	23
A.G.J.M. Rombouts	23	23
	227	**227**

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

	31-12-2011	31-12-2010
Contingent liabilities	482	478

* Including additional allowances and excluding expense allowances.

34 Irrevocable facilities

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

	31-12-2011	31-12-2010
Master agreements concerning the unutilized part of credit facilities	4,418	3,816
Contracted loans and advances to be distributed in the future	3,994	6,276
	8,412	**10,092**

According to contract, distribution of this contracted lending will take place as follows:

	31-12-2011	31-12-2010
Up to 3 months	1,290	1,611
3-12 months	1,612	2,391
1-5 years	1,092	2,264
Over 5 years	0	10
	3,994	**6,276**

Nearly all these loans and advances have a contractual term to maturity of more than 5 years. The average interest rate is 3.1% (2010: 2.8%). These commitments are included in the interest rate risk management of the entire portfolio.

35 Assets not freely disposable

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

	31-12-2011	31-12-2010
Pledged to the central bank	12,929	12,126
Pledged to other financial institutions	15	15
	12,944	**12,141**

36 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 behalf of the company as members of the Executive Board or Supervisory Board of one or more participating interests of the company.

37 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.

38 Long-term capitalization and dividend policy

A review was carried out in 2006 to assess the desired and necessary capitalization of BNG, partly in view of the bank's liability to pay corporate 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 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.

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 2011. There will also be no more additional payments chargeable to the reserves. The lowering of the 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 unlikely event that expectations on growth and/or result are not met.

39 Associates and joint ventures

	31-12-2011	31-12-2010
Associates		
Transdev-BNG-Connexxion Holding BV, The Hague Participation in and funding of businesses in the broadest sense. This company holds two-thirds of the shares in Connexxion Holding NV.	25%	25%
Dataland BV, Rotterdam A municipal nonprofit initiative that aims to make information on registered properties – as held by municipalities and/or other public entities – available to a wide audience.	30%	30%
Data B Mailservice Holding BV, Leek Provision of services to, among others, public sector organizations, ranging from printing and mail services to payment-related, direct marketing and messaging services.	45%	45%
NV Trustinstelling Hoevelaken, The Hague Acceptance and administration of pledge-related rights and other collaterals.	40%	40%

	31-12-2011	31-12-2010
Joint ventures entered into by BNG Gebiedsontwikkeling BV Joint development and allocation of land with municipal authorities, for own risk and account. The parties involved in the joint ventures have an equal voting right, which means 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%	80%
Ontwikkelingsmaatschappij De Drieslag Ommen Beheer BV, Ommen	50%	50%
Development and allocation of land for industrial estates and residential construction		
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		

	31-12-2011	31-12-2010
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		
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%	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%
Property development for residential construction and parking facilities		

	31-12-2011	31-12-2010
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%	50%
Centrumplan Den Burg CV, Den Burg (Texel)	50%	50%
Development and allocation of land for residential construction		
Nieuw Overstad BV, Alkmaar	13%	13%
Stadover Markt Beheer BV, Alkmaar	25%	25%
Stadover Markt CV, Alkmaar	13%	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

	31-12-2011	31-12-2010
Balance sheet		
Total assets	53	52
Total liabilities	0	0

	2011	2010
Income statement		
Income	1	1
Result for financial year	1	1

Other associates

	31-12-2011	31-12-2010
Balance sheet		
Total assets	4	4
Total liabilities	3	2

	2011	2010
Income statement		
Income	8	7
Result for financial year	–	1

Summarized financial information on joint ventures
BNG Gebiedsontwikkeling BV participations

	31-12-2011	31-12-2010
Balance sheet		
Fixed assets	–	–
Current assets	154	159
Total assets	**154**	**159**
Equity	54	63
Long-term liabilities	1	21
Short-term liabilities	99	85
Total liabilities	**154**	**159**

	2011	2010
Income statement		
Income	3	2
Expenses	11	3
Result for financial year	**(8)**	**(1)**

The Hague, 1 March 2012

Executive Board	C. van Eykelenburg, *Chairman*
	J.J.A. Leenaars
	J.C. Reichardt
Supervisory Board	H.O.C.R. Ruding, *Chairman*
	Y.C.M.T. van Rooy, *Secretary*
	R.J.N. Abrahamsen
	H.H. Apotheker
	H.G.O.M. Berkers
	S.M. Dekker
	W.M. van den Goorbergh
	R.J.J.M. Pans
	A.G.J.M. Rombouts

Company financial statements

Company balance sheet as at 31 December 2011

Amounts in millions of euros

	31-12-2011	31-12-2010
Assets		
Cash and balances with the central bank 1	5,149	1,073
Amounts due from banks 2	8,448	6,573
Financial assets at fair value through the income statement 3	3,322	2,898
Other financial assets 4	21,519	13,457
Financial assets available-for-sale 5	6,908	6,402
Loans and advances 2	90,752	86,854
Participating interests 6	113	822
Property and equipment 7	19	21
Other assets 8, 9	199	168
Total assets	**136,429**	**118,268**
Liabilities		
Amounts due to banks 10	7,469	5,814
Financial liabilities at fair value through the income statement 11	628	649
Other financial liabilities 12	14,367	9,320
Debt securities 13	100,907	92,321
Funds entrusted 10	10,934	7,681
Subordinated loans 10	93	92
Other liabilities 8, 9	148	171
Total liabilities	134,546	116,048
Equity 14	1,883	2,220
Total liabilities and equity	**136,429**	**118,268**

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

Company income statement 2011

Amounts in millions of euros

		2011		2010
– Interest income 15	2,313		1,847	
– Interest expenses 16	1,862		1,482	
Interest result		451		365
Results from participating interests 17		105		2
– Commission income 18	25		27	
– Commission expenses 19	5		5	
Commission result		20		22
Result financial transactions 20		(33)		(31)
Addition to the incurred loss provision 21		0		(4)
Other results 22		5		(4)
Total income		**548**		**350**
– Staff costs 23	29		28	
– Other administrative expenses 24	20		23	
Staff costs and other administrative expenses		49		51
Depreciation 25		2		2
Total operating expenses		**51**		**53**
Profit before tax		**497**		**297**
Taxes 8		(82)		(69)
Net profit		**415**		**228**

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

Company statement of comprehensive income 2011

Amounts in millions of euros

		2011		2010
Net profit		415		228
Changes in currency translation account		(132)		(21)
Changes in cash flow hedge reserve after taxation		(282)		–
Changes in revaluation reserve				
– unrealized value adjustments	(243)		(97)	
– realized value adjustments	(10)		(12)	
– changes in taxes	43		(2)	
		(210)		(111)
Results recognized directly in equity (after taxation)		(624)		(132)
Total		**(209)**		**96**

Company cash flow statement 2011

Amounts in millions of euros

	2011	2011	2010	2010
Cash flows from operating activities				
Profit before tax	497		297	
Adjusted for:				
– Depreciation	2		2	
– Share of results from participating interests	–		(1)	
– Unrealized results through the income statement	45		43	
– Additions to provisions	–		4	
Cash flow generated from operations		544		345
Changes in amounts due from and due to banks (not due on demand)	(380)		1,234	
Changes in loans and advances	(1,333)		(5,042)	
Changes in funds entrusted	2,676		72	
Changes in derivatives	(322)		877	
Taxes paid	(104)		(27)	
Other changes from operating activities	(497)		(392)	
		40		(3,278)
*Total cash flow from operating activities**		584		(2,933)
Cash flows from investing activities				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	(2,525)		(1,369)	
– Participating interests	(5)		(5)	
– Property and equipment	–		(1)	
		(2,530)		(1,375)
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	3,364		1,436	
– Participating interests	714		–	
– Property and equipment	–		–	
		4,078		1,436
Total cash flow from investing activities		1,548		61
Cash flows from financing activities				
Proceeds from issuance of debt securities	27,353		27,629	
Repayments of issued debt securities	(25,406)		(24,015)	
Proceeds and repayments of subordinated loans	(4)		(83)	
Dividend paid	(128)		(139)	
Total cash flow from financing activities		1,815		3,392
Net change in cash and cash equivalents		**3,947**		**520**
Cash and cash equivalents as at 1 January		1,075		555
Cash and cash equivalents as at 31 December		**5,022**		**1,075**
Cash and cash equivalents as at 31 December is comprised of:				
– Cash and balances with the central bank		5,149		1,073
– Cash equivalents in the amounts due from banks item		4		2
– Cash equivalents in the amounts due to banks item		(131)		–
		5,022		**1,075**

* Interest received amounted to EUR 5,799 million while interest paid amounted to EUR 5,261 million.

Company statement of changes in equity 2011

Amounts in millions of euros

2011

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Currency translation account	Other reserves	Un-appropriated profit	**Total**
Opening balance	139	6	(62)	0	132	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)	0
Closing balance	**139**	**6**	**(272)**	**(282)**	**0**	**1,877**	**415**	**1,883**

2010

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Currency translation account	Other reserves	Un-appropriated profit	**Total**
Opening balance	139	6	49	0	153	1,668	248	2,263
Realized results							228	228
Unrealized results			(111)		(21)			(132)
Dividend payment						(139)		(139)
Appropriation from profit previous year						248	(248)	0
Closing balance	**139**	**6**	**(62)**	**0**	**132**	**1,777**	**228**	**2,220**

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.

Foreign currency
The company financial statements are prepared in (millions of) euros. Monetary transactions in foreign currencies are translated on the balance sheet date at the prevailing end-of-day exchange rates, and the results are recognized in the foreign exchange result. Non-monetary assets and liabilities that are recognized at cost are converted at the prevailing exchange rate upon first-time recognition.

Hedging of a net investment denominated in foreign currency
The company uses a derivative to hedge the net investment in foreign currency. Insofar as an effective hedge relationship exists, the translation differences of this instrument are recognized directly in equity in the Currency translation account.

Amounts in millions of euros

1 Cash and balances with the central bank

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

	31-12-2011	31-12-2010
Cash balances held with the central bank	299	223
Overnight deposits with the central bank	2,600	250
Short term deposits with the central bank	2,250	600
	5,149	**1,073**

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**	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
Short-term loans and current accounts	4	1,110	5,884	8,195	5,888	9,305
Reverse repos	2,797	2,216	502	–	3,299	2,216
Cash collateral	4,029	1,337	–	–	4,029	1,337
Long-term loans	35	40	80,035	73,587	80,070	73,627
Interest-bearing securities	147	142	1,009	1,220	1,156	1,362
Medium Term Notes	963	1,236	134	159	1,097	1,395
Reclassified available-for-sale investments	473	492	3,219	3,724	3,692	4,216
Incurred loss provision	–	–	(31)	(31)	(31)	(31)
Total	**8,448**	**6,573**	**90,752**	**86,854**	**99,200**	**93,427**

The Loans and advances item contains no financial lease agreements as at 31-12-2011. As at 31-12-2010, it includes financial lease agreements in the amount of EUR 56 million.

	2011	2010
Movement in the incurred loss provision		
Opening balance	31	27
Additions during the financial year	–	4
Withdrawals during the financial year	–	–
Closing balance	**31**	**31**

3 Financial assets at fair value through the income statement

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

	31-12-2011	31-12-2010
Derivatives	1,090	707
Loans and advances	911	878
Securities	1,321	1,313
	3,322	**2,898**

The total redemption value of the loans and advances and securities at year-end 2011 is EUR 2,175 million (2010: EUR 2,131 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.

	31-12-2011	31-12-2010
Derivatives involved in a hedge accounting relationship	13,457	10,082
Market value adjustments of assets hedged on a portfolio level	8,062	3,375
	21,519	**13,457**

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.

	31-12-2011	31-12-2010
Public sector	3,743	4,478
Supranational organizations	439	–
Banks	1,190	826
Other financial institutions	790	876
Non-financial institutions	707	172
Investments in participating interests	39	50
	6,908	**6,402**

Transfers without derecognition

The bank sold EUR 650 million worth of bonds (2010: EUR 1,480 million), while simultaneously entering into swap agreements through which it retained entitlement to the cash flows and remained exposed to the risks of these bonds (total return swaps). For this reason, these bonds have not been derecognized. The decrease of EUR 830 million in 2011 was caused by the expiration of the maturity of the bonds in question. There were no new transactions in 2011.

As at 31 December 2011, the balance sheet value includes debt securities which were sold in repurchase transactions amounting to EUR 257 million (2010: EUR 0 million).

6 Participating interests

	Interest 31-12-2011	Interest 31-12-2010	31-12-2011	31-12-2010
Subsidiaries				
– Vincent Investments BV, Amsterdam*	–	83%	–	714
– BNG Vermogensbeheer BV, The Hague	100%	100%	2	2
– BNG Gebiedsontwikkeling BV, The Hague	100%	100%	56	51
– Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	1	2
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	25%	25%	53	52
Total subsidiaries and associates			**113**	**822**

For a description of the associates, please refer to note 39 of the consolidated financial statements.

7 Property and equipment

The movement in this balance sheet item is as follows:

	Property 2011	Property 2010	Equipment 2011	Equipment 2010	Total 2011	Total 2010
Historical cost						
Value as at 1 January	47	47	12	11	59	58
Investments	–	–	–	1	–	1
Value as at 31 December	47	47	12	12	59	59
Depreciation						
Accumulated depreciation as at 1 January	29	27	9	9	38	36
Depreciation during the year	1	2	1	–	2	2
Accumulated depreciation as at 31 December	30	29	10	9	40	38
Book value as at 31 December	**17**	**18**	**2**	**3**	**19**	**21**

Estimated useful life

Buildings	33 ⅓ years maximum
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

* The investment in Vincent Investments BV amounted to GBP 500 million and concerned a transaction with a British bank. This transaction causes significant differences between the consolidated and company financial statements. In the company income statement, results are only included upon payment of the dividend, in this case after termination of the transaction. Up to that moment, Vincent Investments BV was recognized at cost in the company balance sheet at EUR 714 million. In March 2011 the shares in Vincent Investments BV were sold. The dividend pay-out of EUR 104 million was recognized in the Results from participating interests item in the income statement.

8 Taxation

On the initiative of the Dutch tax authorities, BNG closed two bilateral agreements ('vaststellingsovereenkomsten') on the corporate tax returns for the periods 2005 – 2009 and 2010 – 2012. In 2012, BNG will evaluate the current agreement and decide upon its further continuation. The agreements are applicable for the BNG fiscal unit. The effect of the agreements is that all financial instruments are processed – both commercially and fiscally – in accordance with IFRS principles of valuation, with the exception of transactions classified as Financial assets available-for-sale. All transactions within this category are valued for fiscal purposes at the lower of either the cost price or the market value. The fiscal result deviates from the commercial result if, on balance, unrealized losses have arisen. If the revaluation reserve increases, the positive amount will benefit 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:

	2011	2010
Profit before tax	497	297
Tax levied at the statutory tax rate	(124)	(76)
Tax adjustment from previous years	2	6
Results from participating interest exempt from taxation	26	–
Other results exempt from taxation	14	2
Effective tax in the consolidated income statement	**(82)**	**(68)**
Nominal tax rate	25.0%	25.5%
Effective tax rate	16.5%	22.9%

Changes in deferred taxes 2011

	Opening balance	Changes through equity	Changes through net result	**Closing balance**
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**

Changes in deferred taxes 2010

	Opening balance	Changes through equity	Changes through net result	**Closing balance**
Fiscal treatment opening balance sheet	4		(1)	3
Financial assets available-for-sale	49	(50)		(1)
Net investment in a foreign entity	0		(13)	(13)
Fair value changes of (other) financial assets and liabilities through the income statement	(28)		28	0
Total	**25**	**(50)**	**14**	**(11)**

9 Other assets and Other liabilities

	31-12-2011	31-12-2010
Other assets		
Deferred tax asset	97	3
Current tax asset	46	–
Other receivables	56	165
	199	**168**
Other liabilities		
Current tax liability	–	6
Deferred tax liability	–	14
Employee benefits provision	2	2
Other commitments	146	149
	148	**171**

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 current and retired employees. This provision has a long-term character.

The movements in the discounted value of the net liability in relation to the defined benefits are as follows:

	2011	2010
Employee benefits provision		
Net liability as at 1 January	2	2
Movements to the provision	0	0
Net liability as at 31 December	**2**	**2**

10 Amounts due to banks, Funds entrusted and Subordinated loans

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

	31-12-2011	31-12-2010
Deposits from banks	5,037	3,338
Repos	226	–
Cash collateral	2,231	2,476
Funds entrusted	10,909	7,681
Subordinated loans	93	92
	18,496	**13,587**

11 Financial liabilities at fair value through the income statement

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

12 Other financial liabilities

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

13 Debt securities

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

This balance sheet item is comprised as follows:

	31-12-2011	31-12-2010
Debenture bonds and euro notes	88,897	81,714
Medium Term Notes	–	55
Euro Commercial Paper	12,010	10,552
	100,907	**92,321**

14 Equity

Since BNG 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 face 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 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 2011.

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 corrected for taxes. Upon sale of these assets, the cumulative result recognized in equity is transferred to the income statement.

Cash flow hedge reserve
With the use of cash flow hedging, the possible variability in future cash flows is hedged. The effective part of the changes in the fair value of derivatives, resulting from changes in the cross currency basis spread, is not recognized in the income statement, but rather in the cash flow hedge reserve.

Currency translation account
Foreign exchange differences arising from the translation of the result of a net investment in a foreign entity are recognized in this item.

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 tax.

	31-12-2011	31-12-2010
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	(272)	(62)
Cash flow hedge reserve	(282)	–
Currency translation account	–	132
Other reserves	1,877	1,777
Unappropriated profit	415	228
	1,883	**2,220**

Difference between consolidated total equity and company total equity
The difference in Other reserves is caused by the positive results from subsidiary Vincent Investments BV. This caused the Other reserves item to be higher in the consolidated financial statements than in the company financial statements. The unwinding of this subsidiary led to a higher company unappropriated profit in 2011.

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.

16 Interest expenses

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

17 Results from participating interests

This item concerns results from participating interests.

18 Commission income

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

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. This item also includes the result from sales of financial assets available-for-sale.

21 Addition to the incurred loss provision

This item concerns the addition to the incurred loss provision. This provision is recognized in the balance sheet item Loans and advances.

22 Other results

	2011	2010
The other results consist of:		
– Foreign exchange result	5	(5)
– Income from consultancy services	0	1
	5	**(4)**

23 Staff costs

	2011	2010
The staff costs are made up of:		
Salaries	19	18
Pension costs	4	3
Social security costs	2	2
Addition to provisions	0	0
Other staff costs	5	5
	29	**28**

24 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.

25 Depreciation

A specification of this item is included in the note on Property and equipment.

Remuneration of the Executive Board and the Supervisory Board
For details on the remuneration of members of the Executive Board and the Supervisory Board, please refer to the Report of the Supervisory Board and to note 32 of the consolidated financial statements.

The Hague, 1 March 2012

Executive Board	C. van Eykelenburg, *Chairman*
	J.J.A. Leenaars
	J.C. Reichardt
Supervisory Board	H.O.C.R. Ruding, *Chairman*
	Y.C.M.T. van Rooy, *Secretary*
	R.J.N. Abrahamsen
	H.H. Apotheker
	H.G.O.M. Berkers
	S.M. Dekker
	W.M. van den Goorbergh
	R.J.J.M. Pans
	A.G.J.M. Rombouts

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 2011 of N.V. Bank Nederlandse Gemeenten, The Hague, which comprise the consolidated and company balance sheet as at 31 December 2011, 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 2011 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 2012

Ernst & Young Accountants LLP
signed by W.J. Smit

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 annual accounts, 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 reserves which have to be kept by law.
3. First of all, if possible, the profits available for distribution shall be used to add an amount of ten percent (10%) of the profit of the financial year as evidenced by the annual accounts to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five 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 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

	2011	2011	2010	2010
Net profit		256		257
The profit appropriation is as follows:				
Appropriation to the *Other reserves* pursuant to Article 23 (3) of the Articles of Association	26		26	
Dividend pursuant to Article 23 (3) of the Articles of Association	7		7	
		33		33
Appropriation to the *Other reserves* pursuant to Article 23 (4) of the Articles of Association	166		103	
Dividend pursuant to Article 23 (4) of the Articles of Association	57		121	
		223		224

BNG'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 towards 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 include nonguaranteed 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 pursuant to a scheme, bye-law or law adopted by one or more of such bodies;
     and/or
   - who execute a part of the governmental function pursuant to a scheme, bye-law or law adopted by one or more of the bodies referred to at a, b and c.

Annexes

A BNG Subsidiaries

BNG Gebiedsontwikkeling BV 100%
Dr. Kuyperstraat 12
2514 BB The Hague
The Netherlands

Management Board:
G.C.A. Rodewijk

P.O. Box 16075
2500 BB The Hague
The Netherlands

Telephone +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
The Netherlands

Management Board:
C.P. van Breugel (until 1 June 2011)
J.L.S.M. Hillen (from 1 June 2011)
J.J.M. de Wit

P.O. Box 16450
2500 BL The Hague
The Netherlands

Telephone +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 Overheidspersoneel BV (HVO) 100%
Koninginnegracht 2
2514 AA The Hague
The Netherlands

Management Board:
Mrs P.J.E. Bieringa
O. Labe

P.O. Box 30305
2500 GH The Hague
The Netherlands

Telephone +31 (0)70 3750 619
bms@bng.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 Reference table – Dutch Banking Code

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	Formal embedding
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 of the Consolidated financial statements
3.2.1 to 3.2.4	Social Annual Report
Risk Management	
4.1 to 4.3	Report of the Supervisory Board
4.4 to 4.5	Risk Section of the Consolidated financial statements
Audit	
5.1	Corporate governance section in the Report of the Executive Board
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	–
6.4.5 to 6.4.6	Report of the Supervisory Board

C BNG 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
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
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

Financial year	Long-term lending	Short-term loans and advances	Short-term borrowings	Profit and loss account[1]
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
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
2010	90,389,403	12,390,256	18,678,225	256,763
2011	97,577,785	15,343,347	23,556,036	256,389

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

D Shareholders of BNG as at 31-12-2011

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
Anna Paulowna	41,496
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
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
Delft	47,385
Delfzijl	39,156
De Marne	10,530
De Ronde Venen	37,323
Deurne	99,840
Deventer	292,313
De Wolden	31,122
Den Haag	1,275,456
Den Helder	211,731
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
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
Eindhoven	171,600
Eijsden-Margraten	52,455
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
Gaasterlân-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 (province)	75,250
Groningen (municipality)	329,199
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
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 (O.)	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
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
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
Menaldumadeel	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
Niedorp	6,942
Nieuwegein	80,184
Nieuwkoop	36,348
Nijkerk	32,370
Nijmegen	193,479
Noord-Beveland	6,520
Noord-Brabant (province)	40,000
Noord-Holland (province)	610,350
Noorderveld	30,771
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
Oosterhout	35,100
Oostflakkee	3,120
Oost Gelre	51,363
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
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
Skarsterlân	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
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
Wieringen	6,240
Wieringermeer	5,616
Wijchen	11,193
Wijdemeren	33,930
Wijk bij Duurstede	23,751
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
Zwolle	149,097
Zwijndrecht	47,541

N.V. Bank Nederlandse Gemeenten
Koninginnegracht 2
P.O. Box 30305
2500 GH The Hague
The Netherlands
Telephone +31 (0)70 3750 763
mc@bng.nl
www.bng.nl