Interim Report 2010

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

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

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

Founded in 1914, 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 State of the Netherlands and the other half by municipal authorities, provincial authorities and a water board. BNG is established in The Hague and has no branches.

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

This is an unofficial translation of the Halfjaarbericht 2010 which is provided for convenience only. In the event of any ambiguity, the Dutch text will prevail.

BNG maintains its stable course despite the continuing turbulence in the financial markets. The *net profit* for the first half of 2010 was EUR 110 million, down EUR 4 million compared with the same period in 2009. Positive factors were the higher interest result and an incidental tax gain. The unrealized result financial transactions was negative, mainly due to the atmosphere of crisis that surrounded the southern Eurozone countries in the second quarter.

The volume of new long-term lending showed a substantial increase during the reporting period. In 2010, clients benefited from exceptionally low interest rates, especially in the very long segment. This partly involved credit demand that had been pre-financed in 2009 on a short-term basis and were consolidated following the interest rate movements. Compared to the same period in 2009, the volume of new long-term lending rose by EUR 4.2 billion to EUR 7.3 billion. The bank's market shares rise, confirming BNG's strong market position. The bank noted that competitors were reluctant to grant loans to the bank's core clients due, in particular, to the demand for very long maturities.

Next to the strong increase in demand for long-term lending, demand for short-term lending also remained high. The continuing exceptionally low interest rates in the short-term segment played a significant role here. Compared to the second half of 2009, average short-term lending to clients fell by just EUR 0.1 billion to EUR 5.7 billion.

BNG's funding position improved in the first half of 2010 compared with 2009. The bank was able to raise more long-term funding on slightly better terms. In the first half of 2010, BNG raised EUR 9.6 billion (2009: EUR 7.6 billion) in long-term funding, of which EUR 8.9 billion (2009: EUR 7.4 billion) was raised through sixty standardized bond issues. Five of these issues were benchmark loans (in euros and US dollars) with a volume ranging from 1.0 to 1.75 billion. The weighted average maturity of the total long-term funding rose by 2.3 years to 7.0 years compared to the full year 2009. The bank's liquidity profile improved further as a result of the large volume of funding and relatively long maturities. The bank also remains able to raise short-term funding on attractive terms.

The *interest result* for the first half of 2010 amounts to EUR 202 million (2009: EUR 175 million). The larger long-term loan portfolio and continuing steep yield curve are significant factors in the increase in the interest result but a few non-recurring factors also had a positive effect. First, the result on early repayment of loans initiated by clients was almost EUR 10 million higher compared to the year-earlier period. In addition, the interest receivable as part of the recalculation of the corporation tax for the years 2005 to 2007 resulted in the recognition of non-recurring interest income of EUR 6 million.

The *result financial transactions* amounted to EUR 54 million negative in the reporting period (2009: EUR 23 million negative). An unrealized loss of EUR 43 million was recognized on interest-bearing securities and structured loans in the balance sheet item financial assets at fair value through the income statement (2009: EUR 20 million negative). The market value of these assets was adversely affected by the turmoil in the capital markets caused by the sovereign debt problems of the southern Eurozone countries. The creditworthiness of the underlying portfolio remains high and the future cash flows are not in doubt. In addition, the result financial transactions item consists of unrealized results on transactions involved in a hedge accounting relationship. In the first half of 2010, these results amounted to EUR 5 million negative (2009: EUR 6 million positive). The bank's hedge accounting is operating almost to perfection. Over the longer term, positive and negative results of hedge accounting are being cancelled out. The remainder of the result financial transactions amounted to EUR 6 million negative against EUR 3 million positive for the comparable period in 2009. This mainly concerns value movements of derivatives not involved in a hedge accounting relationship that were largely due to shifts in the yield curve.

The *commission result* for the first half of 2010 amounts to EUR 17 million, an increase of EUR 1 million compared to the same period in 2009. Fee income from credit facilities and project finance stabilized. The contribution from asset management rose during the reporting period by EUR 1 million to EUR 4 million, partly from investment on behalf of local authorities of the funds received from the sale of their shares in utility companies.

The consolidated *operating expenses* amounted to EUR 29 million in the first half of 2010, EUR 1 million lower compared to the year-earlier period. On 30 June 2010 BNG employed 276 FTEs (year-end 2009: 277 FTEs), 48 of whom work for subsidiaries of the bank.

From 2005 until 2009, the effects of the implementation of BNG's corporation tax liability were incorporated into the annual accounts. This resulted in the *tax burden* being moderated in those years. This effect has disappeared from 2010, and the tax burden will be closer to the nominal tax rate. In the reporting year, in consultation with the tax authorities, BNG adopted IFRS valuations for financial instruments to determine the tax returns with retroactive effect to 2005. Alongside a major simplification of the tax return and consequent cost savings for both the tax authorities and the bank, this has had a non-recurring positive effect of EUR 10 million on the net profit for 2010.

Total assets rose sharply in the first half of the year. Consolidated total assets as at 30 June 2010 were EUR 118.6 billion, an increase of EUR 14.1 billion compared with year-end 2009. To a limited extent, this resulted from the increase in lending to clients. The balance sheet item loans and advances rose by EUR 2.1 billion. Market factors such as lower long-term interest rates and the fall of the euro mainly against the US dollar and the pound sterling made a much more significant contribution to the increase in total assets. The real economic effects are limited since BNG largely hedges interest rate and foreign currency risks with derivatives. The accounting treatment of these hedging transactions is reflected mainly in the balance sheet items other financial assets, banks and debt securities.

The balance sheet item *other financial assets* more than doubled to EUR 17.9 billion. This item mainly comprises derivatives with a positive market value, which serve to hedge interest rate and foreign currency risks in the bond loans on the liabilities side of the balance sheet that have increased in value. The counterparty risks in these derivative transactions are mitigated by mutual collateral obligations. The asset item *banks* fell, mainly because of the reduction in cash collateral provided.

The balance sheet items *financial assets available for sale* and *financial assets at fair value through the income statement* rose slightly compared to year-end 2009, mainly due to the fall in long-term interest rates. Alongside structured loans, the underlying assets consist mainly of investments in European government bonds, covered bonds and residential mortgage-backed securities (RMBS). The investments mainly serve liquidity management purposes. Compared with year-end 2009, the outstanding principal of these investments decreased by over EUR 0.7 billion to EUR 14.0 billion.

On the liabilities side of the balance sheet the earlier mentioned market factors also largely underlie the increase in the item *debt securities* by EUR 8.4 billion to EUR 87.3 billion. The liability item *banks* increased by EUR 3.7 billion, mainly as a result of cash collateral received on derivative contracts. Some of these funds were placed for a very short term with the central bank, causing the increase in cash and cash equivalents on the assets side to EUR 2.4 billion. The *other financial liabilities* item rose by EUR 2.3 billion to EUR 11.2 billion, mainly as a result of the fall in long-term interest rates.

The bank's *equity* decreased in the reporting period by EUR 111 million despite the addition of the net profit of 2010. This was caused by the dividend payment for 2009 of EUR 139 million and the decline of the revaluation reserve with EUR 81 million to EUR 32 million negative. This unrealized revaluation consists mainly of the lower value of assets recognized in the balance sheet item financial assets available for sale as a result of the higher credit and liquidity spreads.

BNG's strong solvency position is reflected in the high BIS tier 1 ratio. Mainly due to the increase in the market value of derivative transactions the ratio declined to 18.2%. The BIS total ratio fell to 19.0%. The capital ratio – realized equity as a percentage of total assets – fell from 2.0% to 1.8%. The drop below the internal limit of 2.0% stemmed from the increase in total assets following the accounting effects described above. Eliminating these effects, the capital ratio at the end of June 2010 was 2.0%.

The study into the consequences of integral treasury banking with lending facilities for municipal and provincial authorities has been completed. The results indicate that there are, on balance, economic disadvantages when the financial interests of all parties concerned are taken into account. All parties recognize this undesired effect and have recommended against introducing the lending facility. The fall of the government means that no final decision has yet been made.

The outlook for the second half of 2010 cannot be separated from the current uncertain market circumstances and their effects on confidence as well as on the pace of economic recovery. Many of the bank's clients are facing austerity measures and financial setbacks. This, together with adverse developments in current projects, makes them reluctant to launch new initiatives.

The difference between long-term and short-term interest rates will also have a favorable effect on the interest result in the second half of 2010. The extent of this effect will depend in part on the speed of the economic recovery and its impact on the shift in the yield curve. The interest result for the second half of 2010 is expected to be in line with the interest result for the first half.
The contribution of the result financial transactions is by definition uncertain. If the turmoil abates, this is expected to have a positive effect on unrealized market value changes of assets recognized at fair value in the balance sheet.

Although the bank's credit portfolio is of a very high quality, it cannot not be excluded that the creditworthiness of an individual debtor could be affected as a result of the current crisis. This might necessitate an addition to the bad debt provision.

The work force at BNG is expected to increase fractionally in the second half of 2010. An expansion of the work force is for instance expected in the area of risk management. Consequently, operating expenses will increase slightly in the second half of the year.

BNG remains the bank for public sector institutions and will provide specialized services at the lowest possible cost, even in difficult market circumstances. The bank aims to be a reliable partner, to retain its strong market position and to continue and, where possible, improve its client relationships. In the second half of 2010, BNG will be expanding the group of potential investors in its standardized bonds by incorporating Rule 144A into the current Debt Issuance Programme. This will enable American institutional investors to invest in the bank's new bond issues.

Given the fragile economic recovery, the increased volatility of results and all the other uncertainties the bank does not consider it wise to make a statement about the 2010 net profit.

N.V. Bank Nederlandse Gemeenten
The Hague, 27 August 2010

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

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

Consolidated balance sheet as of 30 June 2010

In millions of euros

	30-06-2010	31-12-2009
Assets		
Cash and cash equivalents	2,368	655
Banks	7,364	7,683
Loans and advances	81,368	79,305
Financial assets at fair value through the income statement	3,358	2,983
Financial assets available for sale	5,779	5,531
Other financial assets	17,925	8,002
Associates and joint ventures	109	106
Property and equipment	22	23
Other assets	285	208
Total assets	**118,578**	**104,496**
Liabilities		
Banks	9,276	5,615
Funds entrusted	7,644	7,070
Subordinated loans	91	174
Debt securities	87,310	79,935
Financial liabilities at fair value through the income statement	605	351
Other financial liabilities	11,189	8,854
Other liabilities	321	244
Total liabilities	116,436	102,243
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	(32)	49
Currency translation account	(11)	(6)
Other reserves	1,930	1,787
Net profit	110	278
Equity	2,142	2,253
Total liabilities and equity	**118,578**	**104,496**

Consolidated income statement

In millions of euros

	First half of 2010		First half of 2009	
- Interest income	921		1,610	
- Interest expenses	719		1,435	
Interest result		202		175
Income from associates and joint ventures		0		1
- Commission income	20		19	
- Commission expenses	3		3	
Commission result		17		16
Result financial transactions		(54)		(23)
Foreign exchange result		(3)		(1)
Other income		3		2
Total income		**165**		**170**
- Staff costs	17		17	
- Other administrative expenses	11		12	
Staff costs and other administrative expenses		28		29
Depreciation		1		1
Total expenses		**29**		**30**
Profit before tax		**136**		**140**
Taxation		26		26
Net profit		**110**		**114**

Consolidated statement of comprehensive income

In millions of euros

	First half of 2010		First half of 2009	
Net profit		110		114
Changes in currency translation account	(5)		(8)	
Changes in other reserves	4		5	
Changes in revaluation reserve				
- Unrealized value movements	(70)		(24)	
- Realized value movements	(7)		2	
- Changes in deferred taxes	(4)		6	
	(81)		(16)	
Results directly processed in equity after taxation		(82)		(19)
Total		**28**		**95**

Consolidated cash flow statement[1]

In millions of euros

		First half of 2010		First half of 2009
Cash flow from operating activities				
Profit before tax		136		140
Adjustments for depreciation		1		1
Cash flow generated from operations		137		141
- Movement in banks (not due on demand)	3,722		2,497	
- Movement in loans and advances	(854)		147	
- Movement in funds entrusted	330		1,404	
- Movements in derivatives	1,031		223	
- Taxes paid	(28)		(7)	
- Other movements in cash flow from operating activities	121		275	
		4,322		4,539
Total cash flow from operating activities[2]		4,459		4,680
Cash flow from investing activities				
Investments and acquisitions				
- Financial assets at fair value through the income statement and financial assets available for sale	(403)		(17)	
- Associates and joint ventures	(2)		(3)	
- Property and equipment	(1)		(1)	
		(406)		(21)
Disposals, repayments and redemptions				
- Financial assets at fair value through the income statement and financial assets available for sale	689		529	
- Associates and joint ventures	-		1	
		689		530
Total cash flow from investing activities		283		509
Cash flow from financing activities				
Receipts in respect of debt securities		13,864		14,362
Repayments in respect of debt securities		(16,760)		(17,674)
Repayments in respect of subordinated loans		(81)		-
Dividend paid		(139)		(79)
Total cash flow from financing activities		(3,116)		(3,391)
Net movement in cash and cash equivalents		1,626		1,798
Cash and cash equivalents as of 1 January		565		227
Cash and cash equivalents as of 30 June		2,191		2,025
Cash and cash equivalents as of 30 June is comprised of the following:				
Cash and cash equivalents		2,368		2,005
Cash equivalents under the banks (asset) item		7		20
Cash equivalents under the banks (liability) item		(184)		-
		2,191		2,025

|1 *The Cash flow statement is prepared according to the indirect method.*
|2 *Interest received totalled EUR 2,863 million while interest paid amounted to EUR 2,617 million.*

Consolidated statement of changes in equity

In millions of euros

First half of 2010

	Share capital	Share premium reserve	Revaluation reserve	Currency translation account	Other reserves	Undivided profit	**Total**
Opening balance	139	6	49	(6)	1,787	278	2,253
Realized results	-	-	-	-	-	110	110
Unrealized results	-	-	(81)	(5)	4	-	(82)
Dividend payment	-	-	-	-	(139)	-	(139)
Appropriation from profit previous financial year	-	-	-	-	278	(278)	0
Closing balance	**139**	**6**	**(32)**	**(11)**	**1,930**	**110**	**2,142**

First half of 2009

	Share capital	Share premium reserve	Revaluation reserve	Currency translation account	Other reserves	Undivided profit	**Total**
Opening balance	139	6	(29)	(3)	1,708	158	1,979
Realized results	-	-	-	-	-	114	114
Unrealized results	-	-	(16)	(8)	5	-	(19)
Dividend payment	-	-	-	-	(79)	-	(79)
Appropriation from profit previous financial year	-	-	-	-	158	(158)	0
Closing balance	**139**	**6**	**(45)**	**(11)**	**1,792**	**114**	**1,995**

Selected notes to the interim report 2010

Accounting principles
The consolidated interim figures of BNG were prepared in accordance with the accounting principles and computation methods applied for the financial statements 2009 and are presented according to IAS 34 'Interim Financial Reporting' as adopted within the European Union. The interim report does not contain all information required for full financial statements and should therefore be read in combination with the annual report 2009. All amounts in this interim report are presented in millions of euros, unless stated otherwise.

BNG has applied the following IFRS standards, changes and interpretations, which are applicable as of 1 January 2010. The application of these standards, changes and interpretations had no significant effect on the interim report 2010.
- Improvements to IFRSs (issued May 2008)
- IFRS 3 – Business combinations
- IAS 27 Amendment – Consolidated and Separate Financial Statements
- IAS 39 Amendment – Eligible Hedged Items
- IFRIC 17 – Distributions of Non-Cash Assets to Owners
- IFRIC 18 – Transfer of Assets from Customers

In this interim report BNG has not made use of the early adoption option with respect to new or revised standards and interpretations, as adopted by the European Union. This concerns the following standards and interpretations:
- Improvements to IFRSs (issued April 2009)
- Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions
- IAS 32 Amendment – Classification of Right Issues
- Amendments to IFRS 1 – Limited Exemption from comparative IFRS 7 Disclosures

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

Dividend
The proposed dividend of EUR 139 million for the financial year 2009 was paid out to the shareholders after the General Meeting of Shareholders in the first half of 2010. BNG has no plans to pay out an interim dividend for the first half of 2010.

Debt securities
As part of its long-term funding BNG issued EUR 9.6 billion of long-term debt securities in the first half of 2010. In the same period, EUR 6.2 billion of long-term funding was repaid.

Interest-bearing securities portfolio (IBS)
BNG's IBS portfolio is held for its liquidity management and consists of high-quality bonds largely eligible as collateral at the central bank. This portfolio also serves to obtain a supplementary return on equity. The next table includes the assets on the basis of outstanding principal amounts and they are classified into type and rating level. The assets originate from the balance sheet items: *Banks, loans and advances, financial assets available for sale and financial assets at fair value through the income statement.*

Interest-bearing securities portfolio (IBS)

30-06-2010

	AAA	+AA-	+A-	+BBB-	None	Total
Domestic						
Government Bonds	733					733
IBS with government guarantee	274					274
Covered Bonds	130					130
IBS with National Mortgage Guarantee	1,216	74	458			1,748
Mortgage funds		1,198				1,198
Medium Term Notes			174			174
ABS/MBS	1,481					1,481
Other	140	295	142			577
	3,974	1,567	774	0	0	6,135
Foreign						
Government Bonds	660	1,545				2,205
IBS with government guarantee	889	50	46		21	1,006
Covered Bonds	1,312	110				1,422
Medium Term Notes	61	80				141
ABS/MBS	1,455	427	99			1,981
Other	134	384	215	155		888
	4,511	2,596	360	155	21	7,643
Total	**8,485**	**4,163**	**1,134**	**155**	**21**	**13,958**

31-12-2009

	AAA	+AA-	+A-	+BBB-	None	Total
Domestic						
Government Bonds	505					505
IBS with government guarantee	96				269	365
IBS with National Mortgage Guarantee	1,138	79	472			1,689
Mortgage funds		317	1,080			1,397
Medium Term Notes	5		173			178
ABS/MBS	1,541					1,541
Other	20	355	125			500
	3,305	751	1,850	0	269	6,175
Foreign						
Government Bonds	654	1,538				2,192
IBS with government guarantee	1,244	46	70		22	1,382
Covered Bonds	1,309	110				1,419
Medium Term Notes	56	80				136
ABS/MBS	1,585	439	59			2,083
Other*	666	372	157	100		1,295
	5,514	2,585	286	100	22	8,507
Total	**8,819**	**3,336**	**2,136**	**100**	**291**	**14,682**

*| *This item (column AAA) includes a securitization of EUR 487 million in which are placed, amongst others, loans and advances sold by BNG for EUR 330 million.*

	First half of 2010		First half of 2009
Result financial transactions			
Results from hedge accounting		(5)		(6)
Market value adjustment financial assets at fair value through the income statement as a result of changes in credit- en liquidity spreads		(43)		(20)
- of which investments	(25)		10	
- of which structured loans	(18)		(30)	
Other market value adjustments		(6)		3
Result financial transactions		**(54)**		**(23)**

	30-06-2010	31-12-2009
Off-balance sheet commitments		
The off-balance sheet commitments consist mainly of contingent liabilities, irrevocable facilities and encumbered assets. The analysis below shows these components at the end of June 2010 and the comparative figures at the end of December 2009.		
Contingent liabilities	845	873
Irrevocable facilities	7,758	5,980
Encumbered assets	11,121	11,643

Declaration of responsibility

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

Review report

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

Introduction
We have reviewed the accompanying consolidated interim financial information for the six month period ended 30 June 2010, of N.V. Bank Nederlandse Gemeenten, The Hague, which comprises the consolidated balance sheet as at 30 June 2010, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the six month period then ended. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information as at 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 27 August 2010

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

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