Interim Report 2012

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

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

BNG is a professional, contemporary bank and provides reliable financial services for the benefit of public facilities. In this regard, the bank plays an essential role in the public sector. BNG's clients primarily comprise local authorities and public sector institutions in the area of housing, healthcare, education and public utilities. The bank provides customized financial services ranging from loans and advances, consultancy, payment services, electronic banking and asset management. BNG also participates in public-private partnerships.

Founded in 1914, BNG 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, the bank 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 possible Bank Financial Strength Rating (A) by Moody's.

Report of the Executive Board

BNG's goal is to maintain a steady course in the current economic uncertain times. In practice, this primarily means being able to provide lending to its client groups at all times. This goal was once again achieved in the first half of 2012. At EUR 5.7 billion, new long-term lending nearly equaled the figure for the first half of 2011, while the bank held on to its large market shares. Of course, the bank's ambition should be achieved in a profitable manner. With a net profit of EUR 159 million over the first half of 2012, the bank succeeded to do so. The result was EUR 5 million higher than the result for the same period in 2011. The interest result, the structural part of the result, increased by EUR 14 million, which was mainly attributable to the growth of the loan portfolio compared to 30 June 2011.

The large volume of new long-term lending and the high market shares emphasize the bank's importance to its core client sectors. The composition of new long-term lending across the client sectors has changed, however, relative to the first half of 2011. Local governments are reluctant to undertake new investments due to the deteriorating financial situation and the expansion of their duties combined with the imminent budget cuts, resulting in lower demand for credit. No decrease was seen in the demand for new lending from the healthcare sector in 2012. The rising credit risks – in part resulting from the increased application of market principles – and the higher concentration risk arising from higher turnover in recent years have led the bank to be more reticent in responding to the demand in this sector, particularly for lending subject to solvency requirements. Following the peak seen in 2010, when new regulations were anticipated, and the expected decline in the first half of 2011, the demand in the housing association sector returned to a more usual level in 2012. Nearly all new loans and advances to housing associations are guaranteed by the Social Housing Guarantee Fund (WSW).
The average volume of short-term lending to clients declined by EUR 0.5 billion to EUR 5.1 billion compared to the same period in 2011.

BNG attracted EUR 9.8 billion (2011: EUR 9.5 billion) of long-term funding for refinancing and new lending purposes, of which EUR 8.0 billion (2011: EUR 8.8 billion) was raised through 85 standardized issues. Four of these issues were benchmark loans (in euros and US dollars) varying in size from 1.25 to 2.5 billion. Affected by the deepening debt crisis in Europe, the availability on international capital markets of long-term funding at reasonable prices decreased, mainly in the second quarter. As a result, the weighted average maturity of new long-term funding declined by 0.3 to 6.1 years relative to the full year 2011.

Despite the difficult market conditions BNG was able to maintain an adequate liquidity profile. For instance, the bank successfully raised EUR 2.0 billion in a seven-year issue in the second quarter of 2012. Moreover, BNG's triple A rating enables it to meet its short-term funding needs on very attractive terms. Consequently the 'flight towards quality' has led an increasing number of parties to place their temporary excess liquidity with BNG. To cushion any temporary shocks in the availability or the pricing of long-term funding, the bank increased the maximum volume of the ECP program as a precautionary measure by EUR 5 billion to EUR 20 billion at the beginning of 2012.

The interest result for the first half of 2012 was up 6% to EUR 241 million compared with the same period in 2011. The increase was mainly attributable to the increased volume of the long-term loan portfolio. The persistently steep interest-rate curve also positively influenced the interest result in the period under review.

The result financial transactions amounted to EUR 9 million negative in the period under review (2011: EUR 11 million negative). BNG recognized EUR 16 million of unrealized losses on interest-bearing securities and structured loans in the balance sheet item Financial assets at fair value through the income statement (2011: EUR 26 million negative). In addition, the result financial transactions consists of unrealized market value adjustments from transactions involved in hedge accounting. This result was EUR 5 million positive in the first half of 2012 (2011: EUR 2 million positive). The bank's hedge accounting system works almost perfectly, with the positive and negative results from hedge accounting matching in the longer term. The remainder of the result financial transactions was EUR 2 million positive (2011: EUR 13 million positive), resulting primarily from the returns on sale of interest-bearing securities in the balance sheet item Financial assets available-for-sale.

The commission result for the first half of 2012 was EUR 13 million, down EUR 2 million compared to the same period in 2011. The decrease was almost entirely due to lower commission income from new credit facilities. The EUR 3 million contribution of BNG Asset Management (BNG Vermogens-beheer) to the commission result was on par with the result in the same period of the previous year.

The unfavorable economic developments also affected BNG's high-quality loan portfolio. In the period under review, an irrecoverable loan of less than EUR 1 million was partly written off and charged to the incurred loss provision. Furthermore, the slightly higher risks in the loan portfolio prompted a EUR 6 million addition to the incurred loss provision, which now amounts to EUR 37 million.

Operating expenses rose slightly to EUR 30 million relative to the first half of 2011. The rise was due to a limited increase in the work force and the hiring of more external manpower. As at 30 June 2012, BNG employed 295 employees. Expressed in full-time equivalents (FTEs) the work force gained three FTEs compared with the end of 2011, growing to 281 FTEs.

The balance sheet total posted a strong increase of EUR 6.8 billion to EUR 143.3 billion in the first half of 2012. Compared with the end of 2011, the item Loans and advances decreased by EUR 0.1 billion to EUR 90.7 billion. The main reason for the increase in the balance sheet total lies beyond the bank's sphere of influence. The market conditions – particularly the low long-term interest rates and the depreciation of the euro against the US dollar – have had relatively large accounting consequences, which are primarily reflected in the sharp rise in the items Other financial assets, Debt securities and Other financial liabilities. By contrast, the economic effects are very limited as BNG uses derivatives to fully hedge currency risks and to hedge interest rate risks predominantly. The 'flight towards quality' on the money and capital markets has driven numerous parties to place their excess liquidity with BNG. As a result the liability item Funds entrusted rose by EUR 2.1 billion to EUR 13.0 billion while the liability item Amounts due to banks increased by EUR 0.3 billion to EUR 7.8 billion. This also explains the EUR 1.7 billion increase to EUR 6.8 billion in the asset item Cash and balances held with the central bank. The bulk of the bank's excess liquidity was placed with the central bank.

The bank's equity grew by EUR 0.3 billion in the period under review to almost EUR 2.2 billion. The increase is the result of the net profit in the period under review, the dividend pay-out of EUR 64 million and the improvement in both the revaluation reserve and the cash flow hedge reserve. The revaluation reserve increased by EUR 79 million to EUR 192 million negative due to the unrealized value adjustments on interest-bearing securities in the item Financial assets available-for-sale, mainly as a consequence of the sharp decline in the long-term interest rate. The increase in the cash flow hedge reserve of EUR 125 million to EUR 157 million negative is due to the unrealized value adjustments on cross currency swaps with which the bank hedges its currency and interest rate risks on debt issues denominated in foreign currencies. The change in the cross currency basis swap spread, which was favorable to the bank, is partly caused by the increased availability of US dollars for European institutions in the period under review.

The bank's strong solvency position is reflected in its high BIS Tier 1 ratio, which rose slightly to 20.6% in the period under review. The new Basel III regulations stipulate a leverage ratio of at least 3% for banks from 2018. The leverage ratio roughly corresponds to the equity as a percentage of the balance sheet total. As a result of the strong increase in the balance sheet total, the leverage ratio remained stable at 1.8% relative to the end of 2011. This calculation does not take account of the negative or positive amount in the revaluation reserve and cash flow hedge reserve. Both reserves are made up of unrealized value adjustments which, in principle, will not have any effect on the bank's net result. In 2012 BNG updated its plan for meeting the minimum level of the leverage ratio by the end of 2017. The plan was made available to the central bank. BNG will generate the required equity growth by retaining a larger share of the net profit, possibly supplemented by a limited issuance of hybrid debt securities. In this context the bank's revised dividend policy was considered during the General Meeting of Shareholders held on April 23, 2012. The intended pay-out percentage was lowered from 50% to 25% of the net profit, with effect from the 2011 financial year.

The Dutch government proposed to mandate treasury banking without loan facilities for local governments in the course of 2013. This implies an obligation for the municipal and provincial authorities as well as the water boards to place their excess liquidity with the Dutch State. The impact on the business model of BNG Asset Management, which provides asset management services to local authorities, is substantial. If the proposal is implemented, it will result in a strategic reorientation for this BNG subsidiary in the course of the second half of 2012.
The implementation of the government's proposal will help reduce national debt – according to European directives – to a limited extent. The bank is not in favor of the proposal, among other things because investment income of municipal and provincial authorities will decrease by an estimated EUR 200 million annually. There are no correspondending cost savings for the central government. Nonetheless BNG has adopted a constructive approach and is helping to implement the government's proposal while seeking to curb the adverse consequences for the bank's clients and BNG Asset Management. As the proposal only relates to the excess liquidity of municipal and provincial authorities, the bank will be able to continue to focus on its core activities for this client group: lending and providing payment services.

During the Annual General Meeting of Shareholders held on April 23, 2012, Mrs. Van Rooy, Mr. Abrahamsen and Mr. Rombouts resigned from the Supervisory Board. During the same meeting two of the three vacancies were filled, following the appointment of Mr. Nooitgedagt (Executive Board member and CFO of AEGON NV) and Mr. Bovens (Queen's Commissioner in the Province of Limburg). Following the departure of Mrs. Van Rooy, Mrs. Dekker was appointed Vice Chair and Secretary to the Supervisory Board. The appointment of Mrs. Sint (Chair of the Executive Board of Isala Klinieken) during the Extraordinary General Meeting of Shareholders held on 20 August 2012 completes the composition of the Supervisory Board in line with the required profile.

The outlook for the core client sectors is unfavorable. Although the current extremely low long-term interest rates are attractive for bringing forward future borrowing, developments within the client groups are putting pressure on new lending activities. Examples of these developments include issues with derivative positions in the social housing sector, the budgetary challenges facing local governments and the growing uncertainty in the healthcare sector. New long-term lending in 2012 is expected to turn out fractionally lower compared with the previous year. The bank will obviously keep its 'counter' for lending open. The bank expected a relatively large demand for lending subject to solvency requirements within the healthcare sector in 2012. This expectation was confirmed during the period under review. As stated earlier, the bank will be more reticent in responding to such demand, due to the rising credit risks and the increased concentration risk the bank faces.

BNG's long-term funding needs in 2012 are expected to be on par with the level required in 2011. The bank aims to maintain its liquidity profile by attracting funding with relatively long maturity. However, developments on the international capital markets are challenging. Any limited availability may have a negative effect on the pricing of the bank's issues. Higher credit and liquidity risk spreads for the refinancing of debt are putting pressure on the bank's interest result.

The bank's interest result is also under pressure as a result of the persistently low long-term interest rates causing the return on equity invested in the asset portfolio to decrease. Nevertheless, the bank expects the 2012 interest result to be slightly higher than that for 2011, following the growth of the various portfolios and the persistently steep interest-rate curve. The 2012 result financial transactions is expected to remain negative if no structural solution is found for the European debt crisis. In the light of the economic prospects it cannot be ruled out that some debtors may no longer be able to meet their obligations. From the bank's perspective, the developments in Portugal and Spain are particularly concerning. This may necessitate another limited addition to the incurred loss provision or an impairment. BNG expects new regulations that will affect profitability, such as a bank levy that will be implemented in 2012. BNG expects that the bank's contribution will amount to some EUR 30 million annually. Lastly, the work force and corresponding costs are expected to rise in 2012 due to the continuously increasing regulatory burden and the resulting projects concerning compliance and improvement of the bank's processes and systems. Partly as a result of the rise in pension and social security contributions, operating expenses will show a marked increase in the second half of 2012. Consolidated operating expenses of EUR 65 million are expected.

In view of all the uncertainties and, for the moment, the absence of economic recovery, the bank does not consider it wise to make a statement regarding the expected 2012 net profit.

Consolidated balance sheet as at 30 June 2012

Amounts in millions of euros

	30 June 2012	31 December 2011
Assets		
Cash and balances with the central bank	6,795	5,149
Amounts due from banks	8,323	8,448
Financial assets at fair value through the income statement	3,037	3,322
Other financial assets	25,986	21,519
Financial assets available-for-sale	8,178	6,919
Loans and advances	90,723	90,775
Investments in associates and joint ventures	110	108
Property and equipment	19	19
Other assets	135	201
Total assets	**143,306**	**136,460**
Liabilities		
Amounts due to banks	7,812	7,469
Financial liabilities at fair value through the income statement	770	628
Other financial liabilities	16,699	14,367
Debt securities	102,509	100,907
Funds entrusted	13,003	10,944
Subordinated loans	94	93
Other liabilities	223	155
Total liabilities	141,110	134,563
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	(192)	(271)
Cash flow hedge reserve	(157)	(282)
Other reserves	2,241	2,049
Unappropriated profit	159	256
Total equity	2,196	1,897
Total liabilities and equity	**143,306**	**136,460**

Consolidated income statement

Amounts in millions of euros

	First half of 2012		First half of 2011	
– Interest income	1,172		1,076	
– Interest expenses	931		849	
Interest result		241		227
Income from associates and joint ventures		0		0
– Commission income	16		18	
– Commission expenses	3		3	
Commission result		13		15
Result financial transactions		(9)		(11)
Other results		3		4
Total income		**248**		**235**
– Staff costs	18		17	
– Other administrative expenses	11		11	
Staff costs and other administrative expenses		29		28
Depreciation		1		1
Total operating expenses		**30**		**29**
Addition to the incurred loss provision		6		–
Profit before tax		**212**		**206**
Taxes		(53)		(52)
Net profit		**159**		**154**

Consolidated statement of comprehensive income

Amounts in millions of euros

		First half of 2012		First half of 2011
Net profit		159		154
Changes in currency translation account		–		5
Changes in other reserves		–		(5)
Changes in cash flow hedge reserve after taxation		125		–
Changes in revaluation reserve				
– unrealized value adjustments	110		(14)	
– realized value adjustments transferred to the income statement	(5)		(4)	
– changes in taxes	(26)		7	
		79		(11)
Results recognized directly in equity (after taxation)		204		(11)
Total		**363**		**143**

Consolidated cash flow statement[1]

Amounts in millions of euros

	First half of 2012		First half of 2011	
Cash flows from operating activities				
Profit before tax	212		206	
Adjusted for:				
– Depreciation	1		1	
– Unrealized results through the income statement	14		17	
– Additions to provisions	5		–	
Cash flow generated from operations		232		224
Changes in amounts due from and due to banks (not due on demand)	551		(2,035)	
Changes in loans and advances	1,639		69	
Changes in funds entrusted	1,673		1,306	
Changes in derivatives	609		(266)	
Taxes received / paid	11		(37)	
Other changes from operating activities	(301)		(242)	
		4,182		(1,205)
Total cash flow from operating activities[2]		4,414		(981)
Cash flows from investing activities				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	(1,081)		(1,528)	
– Associates and joint ventures	(1)		(1)	
– Property and equipment	–		–	
		(1,082)		(1,529)
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	803		1,741	
– Associates and joint ventures	–		–	
– Property and equipment	–		–	
		803		1,741
Total cash flow from investing activities		(279)		212
Cash flow from financing activities				
Proceeds from issuance of debt securities	16,421		18,386	
Repayments of issued debt securities	(18,719)		(18,010)	
Proceeds and repayments of subordinated loans	(2)		(2)	
Dividend paid	(64)		(128)	
Total cash flow from financing activities		(2,364)		246
Net change in cash and cash equivalents		**1,771**		**(523)**
Cash and cash equivalents as at 1 January		5,022		1,075
Cash and cash equivalents as at 30 June		**6,793**		**552**
Cash and cash equivalents as at 30 June are comprised of:				
– Cash and cash balances with the central bank		6,795		279
– Cash equivalents in the amounts due from banks item		3		279
– Cash equivalents in the amounts due to banks item		(5)		(6)
		6,793		**552**

[1] The cash flow statement is prepared according to the indirect method.
[2] Interest received amounted to EUR 2,987 million (2011: EUR 3,055 million), while interest paid amounted to EUR 2,769 million (2011: EUR 2,772 million).

Consolidated statement of changes in equity

Amounts in millions of euros

First half of 2012

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Currency translation account	Other reserves	Unappro-priated profit	**Total**
Opening balance	139	6	(271)	(282)	0	2,049	256	1,897
Realized results							159	159
Unrealized results			79	125				204
Dividend payment						(64)		(64)
Appropriation from profit previous year						256	(256)	0
Closing balance	**139**	**6**	**(192)**	**(157)**	**0**	**2,241**	**159**	**2,196**

First half of 2011

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Currency translation account	Other reserves	Unappro-priated profit	**Total**
Opening balance	139	6	(62)	0	(5)	1,924	257	2,259
Realized results							154	154
Unrealized results			(11)		5	(5)		(11)
Dividend payment						(128)		(128)
Appropriation from profit previous year						257	(257)	0
Closing balance	**139**	**6**	**(73)**	**0**	**0**	**2,048**	**154**	**2,274**

Selected notes to the 2012 Interim Report

Accounting principles
The consolidated interim figures of BNG were prepared in accordance with the accounting principles and computation methods applied to the 2011 financial statements and are presented according to IAS 34 'Interim Financial Reporting' as adopted by the European Union. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2011 Annual Report. All amounts stated in the Interim Report are presented in millions of euros, unless stated otherwise.

BNG has applied the following new IFRS standards, amendments and interpretations with effect from 1 January 2012. The application of these standards, amendments and interpretations had no significant effect on the 2012 Interim Report.

- IAS 24 Amendment – Related Party Disclosures
- 2010 Improvements to IFRSs (issued May 2010):
  - IFRS 1 First-time Adoption of IFRS
  - IFRS 7 Financial Instruments: Disclosures
  - IAS 1 Presentation of Financial Statements
  - IAS 34 Interim Financial Reporting
  - IFRIC 13 Customer Loyalty Programs
- IFRIC 14 Amendment – Prepayments of a Minimum Funding Requirement

BNG has decided against early adoption of the new or amended standards and interpretations adopted by the European Union. The relevant standards and interpretations are as follows:

- IAS 19 Amendment – Employee Benefits
- IAS 1 Amendment – Presentation of Items of Other Comprehensive Income

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

Segmented information
IFRS 8 'Operating Segments' stipulates that segmentation is dependent on the way in which the organization is managed. The Executive Board does not distinguish between different segments when deciding on the deployment of resources and performance measurement. Therefore, the Interim Report does not contain any segmented information.

Fair value valuation methodologies applied to financial assets and liabilities
In the first half of 2012 no adjustments were made to the fair value valuation techniques applied to financial assets and liabilities.

Dividend
The proposed dividend of EUR 64 million for the 2011 financial year was paid out to the shareholders following the General Meeting of Shareholders held in the first half of 2012. BNG will not pay out an interim dividend on the result for the first half of 2012.

Debt securities
As part of its long-term funding, BNG issued EUR 7.9 billion of long-term debt securities in the first half of 2012. In the same period the bank repaid a total of EUR 5.8 billion of long-term funding.

Portfolio of Interest-Bearing Securities (IBS)

BNG holds a portfolio of interest-bearing securities for liquidity management purposes. The portfolio is composed of high-quality bonds, the majority of which are accepted as collateral by the central bank. The table below shows the assets on the basis of outstanding principle amounts categorized by type and rating level. The assets originate from 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.

30 June 2012

	AAA	AA	A	BBB	Non-investment grade	Total
Domestic						
Government bonds	925					925
IBS with government guarantee	90					90
IBS with National Mortgage Guarantee	819	254	353			1,426
Covered Bonds	385	75				460
Bouwfonds			550			550
Medium Term Notes			140			140
ABS/MBS	573	24	5			602
Miscellaneous		149	296			445
	2,792	**502**	**1,344**	**–**	**–**	**4,638**
Foreign						
Government bonds	1,386	332	840	50		2,608
Supranational	565					565
European Investment Bank	385					385
IBS with government guarantee	1,023	101	128	103	135	1,490
Covered Bonds	75	71	662	582	20	1,410
Medium Term Notes	62				60	122
ABS/MBS	83	597	792	139	61	1,672
Miscellaneous		256	124	167		547
	3,579	**1,357**	**2,546**	**1,041**	**276**	**8,799**
Total	**6,371**	**1,859**	**3,890**	**1,041**	**276**	**13,437**

31 December 2011

	AAA	AA	A	BBB	Non-investment grade	**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	63	1,859
Miscellaneous	342	252	120	167		881
	4,055	**2,218**	**1,759**	**419**	**200**	**8,651**
Total	**6,830**	**3,207**	**2,819**	**419**	**200**	**13,475**

Long-term exposures to GIIPS countries

BNG has long-term exposures to the so-called GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). BNG will not invest in new long-term exposures (with underlying assets) in these countries. The table below provides information regarding BNG's exposure on the basis of outstanding nominal amounts, broken down by country of origin and rating level. Short-term exposures (to banks) are possible for liquidity management purposes.

30 June 2012

	AA	A	BBB	BB	B	CCC	Total
Ireland							
ABS/MBS	22	271	72				365
	22	271	72				365
Italy							
Government bonds		841					841
ABS/MBS	176	9	68				253
IBS with government guarantee			56				56
	176	850	124				1,150
Portugal							
ABS/MBS		76					76
Loans and advances				88	60		148
Covered Bonds			25				25
IBS with government guarantee				135			135
		76	25	223	60		384
Spain							
Government bonds			50				50
ABS/MBS	384	436		23		38	881
Loans and advances			104	9			113
Covered Bonds		612	557	20			1,189
IBS with government guarantee	28	3	46				77
Medium Term Notes				60			60
	412	1,051	757	112		38	2,370
Total exposure	**610**	**2,248**	**978**	**335**	**60**	**38**	**4,269**

The long-term exposures to GIIPS countries 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 the securitization of claims in Germany, Spain and Portugal. All exposures reported under the items 'Loans and advances' and 'IBS with government guarantee' were issued to local government agencies or public organizations. These exposures are classified on the basis of the ultimate rating, which means that they are featured under the guarantor's rating.

BNG closely monitors developments in the financially weaker countries. The economic situation in Portugal and Spain is particularly disquieting. The Portuguese government's credit and liquidity risk spreads make it almost impossible to attract new funding on the capital markets. Unlike Greece, however, Portugal has no plans to restructure its government debts. In early July 2012 a Portuguese borrower failed to perform its regular interest and repayment obligations. In response the bank resolved to increase the incurred loss provision as at the end of June 2012 by EUR 2 million. In early August the borrower subsequently performed its regular obligations. The outstanding nominal amount of the relevant loan amounts to EUR 22.5 million.
As a result of the economic developments in Spain, the Spanish government's credit rating has been lowered once again. Consequently, almost all exposures with a Spanish background have been given a lower credit rating. The exposures with a non-investment grade rating, i.e. lower than BBB-, were analyzed at the end of June 2012. Partly due to the fact that Spanish

borrowers have met all their interest and repayment obligations on time and in full up to the end of June 2012, the bank has not found a reason to recognize impairments on future cash flows for exposures in Spain. This also applies to exposures in the other GIIPS countries.

The fair value of the total exposures currently outstanding in GIIPS countries decreased by EUR 133 million to EUR 3,746 million compared with the end of 2011. The decrease concerns negative market value adjustments, mainly on Spanish and Portuguese exposures.

31 December 2011

	AAA	AA	A	BBB	BB	B	**Total**
Ireland							
ABS/MBS		254	80	46			380
		254	80	46			380
Italy							
Government bonds			838				838
ABS/MBS	147	39	11	69			266
IBS with government guarantee			28	32			60
	147	39	877	101			1,164
Portugal							
ABS/MBS			78				78
Loans and advances					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**

	First half of 2012		First half of 2011	
Result financial transactions				
Result from hedge accounting		5		2
Changes in market value of financial assets at fair value through the income statement resulting from changes in credit and liquidity spreads				
– of which investments	(7)		(1)	
– of which structured loans	(9)		(25)	
		(16)		(26)
Other market value adjustments		2		13
Total		**(9)**		**(11)**

	30 June 2012	31 December 2011
Off-balance sheet commitments		
The off-balance sheet commitments consist mainly of contingent liabilities and irrevocable facilities.		
Contingent liabilities	406	482
Irrevocable facilities	9,474	8,412

Fair value of financial instruments

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.

30 June 2012

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through the income statement	–	2,158	879	3,037
Financial assets available-for-sale	3,197	4,362	619	8,178
Other financial assets	–	15,897	–	15,897
Total assets	**3,197**	**22,417**	**1,498**	**27,112**
Financial liabilities at fair value through the income statement	–	758	12	770
Other financial liabilities	–	16,699	–	16,699
Total liabilities	**–**	**17,457**	**12**	**17,469**

31 December 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**

Significant movements in fair value levels

The increase in Level 1 Financial assets available-for-sale is attributable to the purchase of Dutch, German and Finnish government bonds.

The increase in Level 2 Financial assets available-for-sale is primarily due to the purchase of interest-bearing securities from supranational organizations (European Union and the European Financial Stability Facility, EFSF), the European Investment Bank and several bank bonds.

The decrease in Level 2 Financial assets at fair value through the income statement relates to the increase in Level 2 Financial liabilities at fair value through the income statement. This movement is mainly attributable to movements in the fair value of derivatives.

Statement of changes in Level 3 assets and liabilities

First half of 2012

	Financial assets and liabilities at fair value through the income statement	Financial assets available-for-sale
Opening balance	881	616
Results:		
– Through the income statement	17	6
– Unrealized value movement	–	12
Investments	–	1
Cash flows	(31)	(16)
Transferred to Level 2	–	–
Transferred from Level 2	–	–
Closing balance	**867**	**619**

Statement of changes in Level 3 assets and liabilities

2011

	Financial assets and liabilities at fair value through the income statement	Financial assets available-for-sale
Opening balance	571	562
Results:		
– Through the income statement	(10)	10
– Unrealized value movement	–	(18)
Investments	–	–
Cash flows	(86)	(37)
Transferred to Level 2	–	–
Transferred from Level 2	406	99
Closing balance	**881**	**616**

Declaration of responsibility

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

The Hague, 24 August 2012

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

Supervisory Board
H.O.C.R. Ruding, *Chairman*
S.M. Dekker, *Vice Chair (and Secretary)*
H.H. Apotheker
H.G.O.M. Berkers
T.J.F.M. Bovens
W.M. van den Goorbergh
J.J. Nooitgedagt
R.J.J.M. Pans
M. Sint

Review report

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

Engagement
We have reviewed the accompanying consolidated interim financial information of N.V. Bank Nederlandse Gemeenten, The Hague, which comprises the consolidated balance sheet as at 30 June 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the period of six months ended 30 June 2012, and the notes. Management is responsible for the preparation and presentation of the 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 the interim financial information based on our review.

Scope
We conducted our review of the interim financial information in accordance with Dutch law, including the Dutch Accounting 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 with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with Dutch auditing standards and 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 2012 is not prepared, in all material aspects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 24 August 2012

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

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