

BANK NEDERLANDSE GEMEENTEN



I N T E R I M R E P O R T 2 0 0 7

N.V. Bank Nederlandse Gemeenten (BNG) is the bank of and for local authorities and public sector institutions. BNG's specialised financial services help to minimise 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.

All of the bank's shareholders are public authorities. BNG's clients are comprised of local authorities and public sector institutions in the areas of housing, healthcare, education and public utilities. BNG provides customised financial services ranging from loans and advances and funds transfers to consultancy, electronic banking and asset management. BNG also participates in projects within the framework of public-private partnerships (PPPs)

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

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

This is an unofficial translation of the *Halfjaarbericht 2007 (Interim Report 2007)* which is provided for convenience only. In the event of any ambiguity, the Dutch text will prevail. A copy of the Dutch original will be supplied on written request.
N.V. Bank Nederlandse Gemeenten
Corporate Communication
P.O. Box 30305
2500 GH The Hague
The Netherlands

The *Net Profit after Tax* in the first half of 2007 amounted to EUR 111 million, EUR 7 million higher than in the first half of 2006. This increase was primarily due to the reduction of the corporation tax rate from 29.6% in 2006 to 25.5% in 2007.

The *Profit before Tax* increased by EUR 3 million to EUR 137 million. The increase is attributable to the rise in *Results Financial Transactions*, which more than compensated the fall in the *Interest Result*. Total Income was also EUR 3 million higher than in the first half of 2006.

The *Interest Result* fell by EUR 19 million. This was largely attributable to the refinancing costs of the additional payment of EUR 500 million paid to shareholders in December 2006. Other factors include the maturation of loans and advances with a relatively high margin and the flat, low yield curve. This last factor results into pressure on income from Asset & Liability Management and the return on equity.

The *Results Financial Transactions* increased by EUR 21 million. This item includes the unrealised results from derivatives measured at fair value. Due to the application of hedge accounting, these unrealised results are largely, though not wholly, compensated within an accounting period. As a result of the volatility attributable to hedge accounting, a loss of EUR 12 million in the first half of 2006 has been transformed into a benefit of EUR 11 million in the period under review. *Results Financial Transactions* additionally includes unrealised fair value movements on derivatives not included in hedge accounting, as well as the result on sales from the *Financial Assets Available for Sale* portfolio.

The *Operating Expenses* remained at the same level in relation to the same period in 2006. A shift has occurred from *Staff Costs* to *Other Administrative Expenses* following the outsourcing of the payment operations and data centre as of May 1, 2007. BNG and Ordina BPO bv have

agreed on a 10-year outsourcing contract for the payment operations, including ICT support. The outsourcing has caused the number of FTEs to fall by 80. The reorganisation initiated in 2005 has also resulted in staff cuts. The number of FTEs fell by 101 in the first half of 2007, from 346 to 245.

The total of long-term lending and purchased interest-bearing securities fell to EUR 4.7 billion in the first half of 2007 (2006: EUR 5.1 billion). Long-term lending to clients declined by EUR 0.9 billion to EUR 2.7 billion. By contrast, average short-term lending to clients rose by EUR 0.6 billion to EUR 6.5 billion. The housing sector remained the most significant sector. Although BNG's marketshares in its most important markets remained high, its marketshare in the housing sector came under slight pressure.

The policy of compensating the decline in lending to mortgage funds by investing in publicly traded paper with a high credit quality within the EU resulted in an increase in new investments of EUR 1.6 billion. These investments are accounted for almost entirely in the *Financial Assets Available for Sale* item.

To support its credit operations, the bank also acquires participating interests in the risk-bearing capital of its clients and public-private partnerships. The announced participation in the partial privatisation of the Dutch public transport company Connexxion should be viewed in this light.

Total assets stabilised at just over EUR 90 billion in the period under review. The *Banks* item fell by EUR 0.3 billion to EUR 8.6 billion, partly due to a reduction in loans to mortgage funds. *Loans and Advances* remained virtually static at EUR 64.8 billion. Of the items *Banks* and *Loans and Advances* a net amount of EUR 2.2 billion (year-end 2006: EUR 3.9 billion) related to deposits that serve as collateral for liabilities arising from derivatives transactions. Although

the BIS ratio fell in the first six months of the year, it remains high at 24% (December 31, 2006: 26%).

The increase of EUR 0.8 billion in the balance sheet item *Financial Assets Available for Sale* is due mainly to the increase in interest-bearing securities with a (very) high credit quality, consisting of securitised mortgage or public sector loans.

The revaluation of derivatives and the effects of applying hedge accounting are visible in the balance sheet items *Other financial assets*, *Other financial liabilities* and *Debt Securities*.

Debt securities declined by EUR 1.3 billion to EUR 70.9 billion. This was primarily attributable to currency revaluation and the application of hedge accounting. Currency risks are consistently hedged by the bank. New long-term funding for the first half year worked out at EUR 8.3 billion. The expected total financing requirement for 2007 as a whole is approximately EUR 12 billion. Funding primarily takes place under the standardised conditions of the Debt Issuance Programme. The increase in *Funds Entrusted* is attributable to the temporary cash surpluses placed by clients with the bank.

The *Equity* of the bank remained virtually the same and amounted to EUR 2.5 billion as of June 30, 2007. The slight decrease compared to December 31, 2006 is due mainly to the fall in the revaluation reserve.

The assets under management by BNG Capital Management (BCM) rose slightly to EUR 2.7 billion in 2007 (EUR 2.4 billion at year-end 2006). The operations of the subsidiary OPP (Ontwikkelings- en Participatiebedrijf Publieke sector) are expanding according to plan. During the period under review, OPP posted a profit of EUR 0.7 million on projects in their final phase.

At the General Meeting of Shareholders held in

May 2007, it was decided to pay out EUR 500 million extra to the shareholders in December 2007. This is in line with BNG's long-term capitalisation and dividend policy, which was reviewed in 2006. This policy stipulates a regular dividend pay-out of 50% of the *Net Profit after Tax*. Additional payments will be charged to the reserves if and insofar as certain minimum capital requirements are met. All decisions on additional payments will be presented to the rating agencies in order to make sure that the ratings are not affected by the proposed additional payment. In addition, the Dutch Central Bank must issue a 'declaration of no objection'.

The *Profit before Tax* exceeded expectations in the first half of 2007. This was mainly due to the increase in *Results Financial Transactions*, insofar as these results are unrealised.

The *Interest result* will remain under pressure in the second half of the year owing to the maturation of loans and advances with a relatively high margin and the, in absolute terms, low long-term interest rates. The interest rate outlook still compels the bank to maintain a cautious interest rate position.

The *Operating expenses* for 2007 as a whole are expected to be lower than last year, primarily due to the structurally lower staff costs.

In spite of applying hedge accounting, a certain amount of volatility in results remains, due to changes in unrealised results. This complicates predictions of the foreseen profit for 2007. Besides these effects, the *Net profit after tax* for 2007 will be lower than for 2006.

N.V. Bank Nederlandse Gemeenten
Executive Board

The Hague, August 31, 2007

CONSOLIDATED BALANCE SHEET

In millions of euros

Assets	30-06-2007	31-12-2006	30-06-2006
Cash and Cash Equivalents	261	276	81
Banks	8,592	8,869	9,113
Loans and Advances	64,771	65,003	64,475
Financial Assets at Fair Value via the Income Statement	3,550	3,465	4,838
Financial Assets Available for Sale	10,526	9,702	7,630
Other Financial Assets	2,199	2,495	2,497
Property and Equipment	21	23	24
Other Assets	268	263	399
<i>Total Assets</i>	<u>90,188</u>	<u>90,096</u>	<u>89,057</u>
Liabilities			
Banks	3,319	3,283	2,541
Funds Entrusted	6,106	5,128	5,518
Subordinated Loans	163	163	164
Debt Securities	70,908	72,189	70,226
Financial Liabilities at Fair Value via the Income Statement	182	159	194
Other Financial Liabilities	6,504	6,314	6,824
Other Liabilities	492	284	617
<i>Total Liabilities</i>	<u>87,674</u>	<u>87,520</u>	<u>86,084</u>
Equity *	<u>2,514</u>	<u>2,576</u>	<u>2,973</u>
<i>Total Liabilities and Equity</i>	<u>90,188</u>	<u>90,096</u>	<u>89,057</u>

* See the Statement of Equity for specification.

The figures in this interim report were prepared in accordance with the accounting principles for the measurement of assets and liabilities and profit and loss recognition conform the International Financial Reporting Standards (IFRS) as accepted within the European Union. The accounting principles have not changed compared to the accounting principles applied in the Financial Statements for 2006.

The interim report is unaudited.

CONSOLIDATED INCOME STATEMENT

In millions of euros

	<i>First half of 2007</i>	<i>First half of 2006</i>
Interest Income	1,839	1,465
Interest Expenses	<u>1,701</u>	<u>1,308</u>
Interest Result	138	157
Commission Income	9	7
Commission Expenses	<u>3</u>	<u>3</u>
Commission Result	6	4
Results Trading Portfolio	0	0
Results Financial Transactions	<u>18</u>	<u>(3)</u>
	18	(3)
Other Income	<u>1</u>	<u>2</u>
<i>Subtotal</i>	<u><u>163</u></u>	<u><u>160</u></u>
Staff Costs and Other Administrative Expenses		
Staff Costs	15	18
Other Administrative Expenses	<u>8</u>	<u>6</u>
	23	24
Depreciation	3	2
Other Operating Expenses	<u>0</u>	<u>0</u>
<i>Subtotal</i>	<u><u>26</u></u>	<u><u>26</u></u>
<i>Profit before Tax</i>	<u><u>137</u></u>	<u><u>134</u></u>
Taxation	<u>26</u>	<u>30</u>
<i>Net Profit after Tax</i>	<u><u>111</u></u>	<u><u>104</u></u>

Executive Board

P.O. Vermeulen, *President*
C. van Eykelenburg
J.J.A. Leenaars

Supervisory Board

H.O.C.R. Ruding, *Chairman*
Mrs Y.C.M.T. van Rooy,
Vice-Chairman as well as Secretary
R.J.N. Abrahamsen
H.H. Apotheke

Mrs S.M. Dekker
W.M. van den Goorbergh
R.J.J.M. Pans
A.G.J.M. Rombouts
W.K. Wiechers

CONSOLIDATED CASH FLOW STATEMENT

In millions of euros

	<i>First half of 2007¹</i>	<i>First half of 2006</i>
Cash Flow from Operating Activities		
Profit before Tax	137	134
<i>Adjustments for</i>		
Depreciation	3	2
Additions to/Release of Provisions	-	2
	<u>3</u>	<u>4</u>
<i>Cash Flow Generated from Operations</i>	<u>140</u>	<u>138</u>
Movement in Banks (not due on demand)	362	1,874
Movement in Loans and Advances	1,665	1,207
Movement in Funds Entrusted	926	735
Taxes Received/Paid	(8)	(15)
Other Movements in Cash Flow from Operating Activities	(934)	(979)
	<u>2,011</u>	<u>2,822</u>
Total Cash Flow from Operating Activities ²	<u>2,151</u>	<u>2,960</u>
Cash Flow from Investing Activities		
<i>Investments and Acquisitions</i>		
Financial Assets at Fair Value via the Income Statement and Financial Assets Available for Sale	(2,526)	(2,034)
Property and Equipment	-	(2)
	<u>(2,526)</u>	<u>(2,036)</u>
<i>Disposals and Repayments</i>		
Financial Assets at Fair Value via the Income Statement and Financial Assets Available for Sale	1,754	708
	<u>1,754</u>	<u>708</u>
Total Cash Flow from Investing Activities	<u>(772)</u>	<u>(1,328)</u>
Cash Flow from Financing Activities		
Receipts in Respect of Debt Securities	11,037	8,813
Repayments in Respect of Debt Securities	(12,434)	(9,595)
Dividend Paid	(99)	(134)
	<u>(1,496)</u>	<u>(916)</u>
Total Cash Flow from Financing Activities	<u>(1,496)</u>	<u>(916)</u>
Net Movement in Cash and Cash Equivalents	(117)	716
Cash and Cash Equivalents as of January 1	534	619
Cash and Cash Equivalents as of June 30	<u><u>417</u></u>	<u><u>1,335</u></u>
<i>Cash and Cash Equivalents as of June 30 is comprised of the following</i>		
Cash and Cash Equivalents	261	81
Cash Equivalents under the Bankers (Asset) item	157	1,255
Cash Equivalents under the Bankers (Liability) item	(1)	(1)
	<u>417</u>	<u>1,335</u>

¹ The Cash Flow Statement is prepared according to the indirect method, compared to the IFRS balance sheet dated January 1, 2007.

² Interest received totalled EUR 3,295 million while interest paid amounted to EUR 2,991 million.

CONSOLIDATED STATEMENT OF EQUITY

In millions of euros

	<i>First half of 2007</i>	<i>Year 2006</i>	<i>First half of 2006</i>
<i>Share Capital</i>			
Balance Unchanged	139	139	139
<i>Share Premium Reserve</i>			
Balance Unchanged	6	6	6
<i>Revaluation Reserve</i>			
Opening Balance	220	354	354
Unrealised Value Movements in Financial Assets Available for Sale	(69)	(131)	(130)
Realised Value Movements of Financial Assets Available for Sale recognized in the Income Statement	(2)	(8)	(7)
Deferred Taxes	(2)	5	(4)
Closing Balance	147	220	213
<i>Other Reserves</i>			
Opening Balance	2,012	2,335	2,335
Appropriation from Profit Previous Financial Year	99	177	176
Additional Payment	-	(500)	-
Closing Balance	2,111	2,012	2,511
<i>Net Profit after Tax</i>	111	199	104
<i>Total Equity</i>	<u>2,514</u>	<u>2,576</u>	<u>2,973</u>



