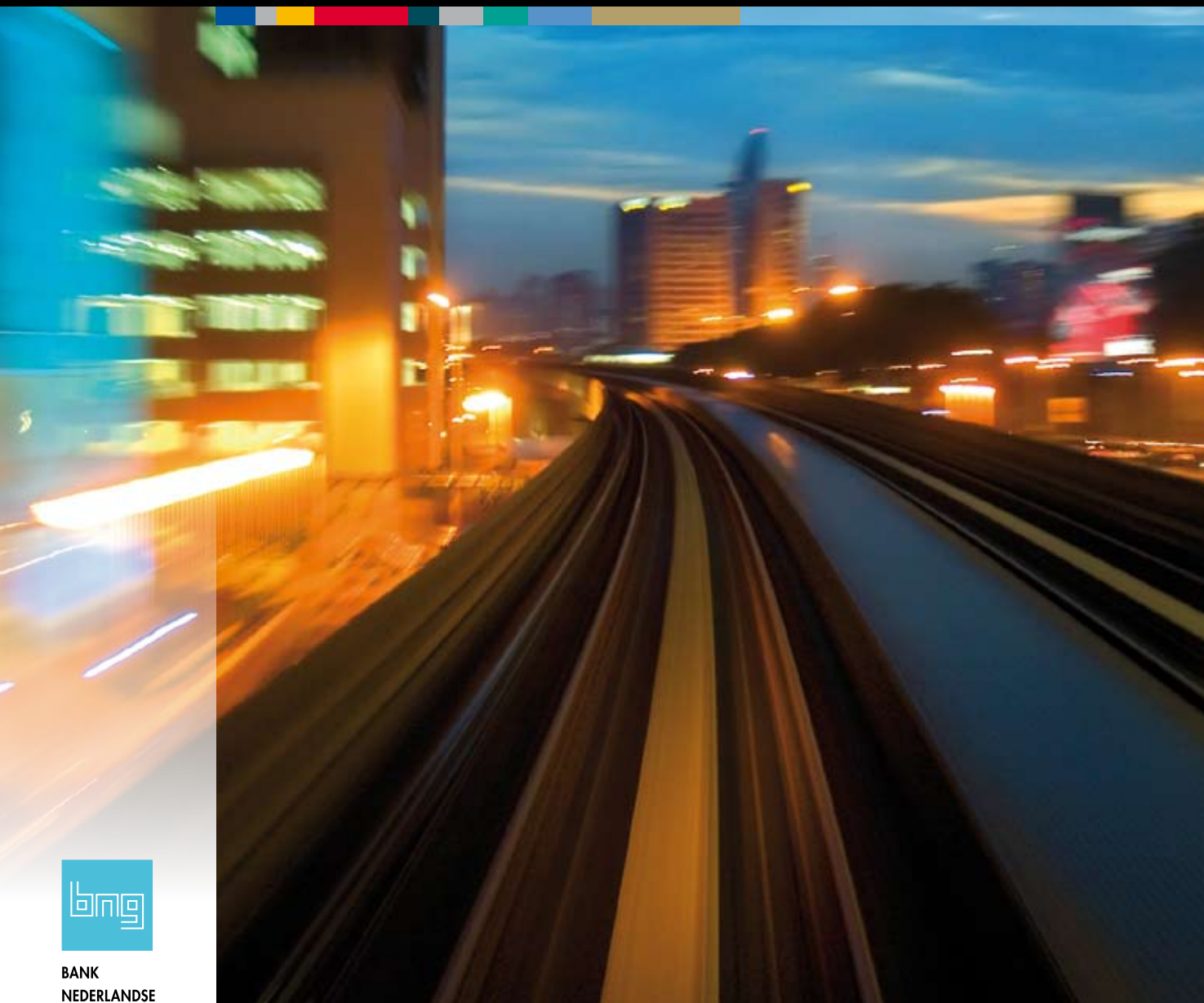


INTERIM REPORT 2008



BANK
NEDERLANDSE
GEMEENTEN

N.V. Bank Nederlandse Gemeenten (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.

Bank's shareholders are Dutch public authorities exclusively. 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 (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.



Net profit after tax fell in the first half of 2008 by EUR 38 million to EUR 73 million, in relation to the first six months of 2007. This fall was due to a reduction in the *interest result* and a decline in the *result financial transactions*. *Profit before tax* came to EUR 88 million, falling 36% compared with the previous year.

The *interest result* amounted to EUR 119 million (2007: EUR 139 million). The decline was caused mainly by higher interest charges due to the additional payment of EUR 500 million to shareholders in December 2007 and lower results on client-initiated early repayments.

The *result on financial transactions* reversed from EUR 17 million positive in the first half of 2007 to EUR 19 million negative in the reporting period. The main reason was the unrealized movement in the fair value of interest-bearing securities which are stated on the balance sheet under *financial assets at fair value via the income statement*. Due to higher liquidity- and credit spreads for various transactions and counterparties, the bank had to take an unrealized charge of EUR 28 million (2007: nil). These value movements arose mainly in the first months of the year. Emphasized is, that the cash flows from transactions are not an issue. There is therefore no reason to assume that actual losses will occur.

The unrealized result on transactions included in a hedge-accounting relationship improved slightly compared with the same period in 2007. Partly due to the high volatility of interest rates, a positive result of EUR 13 million was achieved in this reporting period (2007: EUR 11 million). This result was also unrealized and will be neutralized over time. The remainder of the *result financial transactions* was EUR 4 million negative, mainly due to rising interest rates (2007: EUR 6 million positive).

The *commission result* rose by EUR 2 million to EUR 11 million, mainly due to an increase in fee income from the lending business. *Other income* increased to EUR 5 million (2007: EUR 1 million) due to higher consultancy fees at the subsidiaries Ontwikkelings- en Participatiebedrijf Publieke Sector (OPP) and BNG Consultancy Services (BCS) and a profit on the sale of an office building.

Consolidated operating expenses stabilized at EUR 30 million. Falling *staff costs* were offset by an increase in *other administrative expenses*, reflecting the costs of outsourcing the payment and IT processes. The contents of the, as per May 1, 2007, signed outsourcing contract stipu-

lates that the expenses for the first twelve months exceed the cost of the remaining period. The number of FTEs employed by the bank increased with 3 to 229. Including the wholly-owned subsidiaries, the figure was 282 (year-end 2007: 278).

The commercial performance in the first half-year is positive. Long-term lending totalled EUR 5.2 billion, well above the same period in 2007 and increasing the market share. The average short-term lending volume fell slightly by around EUR 0.2 billion to EUR 4.0 billion. This was caused by the anticipated increase in long-term interest rates and some consolidation of short-term lending due to the relatively high short-term interest rates. In view of the turmoil on the financial markets, competitors are conservative in lending. This emphasizes the importance of BNG, which lends under all market conditions to local authorities and public sector institutions.

The balance sheet total rose by EUR 2.2 billion to EUR 94.8 billion in the first half of 2008. Due mainly to the increase in new lending to the public sector (up 48% compared with the same period in 2007) and the housing sector (+59%), the balance sheet item *loans and advances* amounted to EUR 69.0 billion (year-end 2007: EUR 66.0 billion).

In order to compensate for the maturation of the mortgage fund portfolio and in order to support the liquidity management, the bank has built up a portfolio of investments in negotiable Western-European paper with a very high credit quality. These investments are disclosed almost entirely under *financial assets available for sale* and *financial assets at fair value via the income statement*. The remaining notional amounts of these investments increased by more than EUR 0.6 billion to EUR 12.8 billion compared with year-end 2007.

These investments include covered bonds and residential mortgage-backed securities (RMBS). They all carry a triple-A rating, relate only to the most creditworthy parts of the securitisations and the underlying mortgages are all prime mortgages in countries of Western Europe. The RMBS investments (EUR 5.2 billion, of which EUR 1.2 billion is guaranteed under the Dutch National Mortgage Guarantee Scheme) are in bonds secured by residential mortgages. The covered bonds (EUR 1.6 billion) are also backed by assets of very high quality.

The influence of the liquidity crisis on the fair value of this negotiable paper led to a negative revaluation of EUR 128 million before taxes. Of which, EUR 100 million

is included in the revaluation reserve under shareholders' equity.

Other financial liabilities totalled EUR 9.4 billion (year-end 2007: EUR 7.3 billion). The movement in this item is largely due to the appreciation of the euro, mainly against the US dollar and British Pound. This development led to an opposite movement in *debt securities*. Despite this, the issue of new debt securities caused this item to increase from EUR 70.0 billion to EUR 71.2 billion. The funding came mainly from bond loans issued under the standardised Debt Issuance Programme. This programme was increased in 2008 from EUR 70 billion to EUR 80 billion. Despite the turmoil on the financial markets, the bank still has sufficient access to the money and capital markets. Partly due to the increased financing requirement of clients, long-term funding rose to EUR 9.3 billion (2007: EUR 8.3 billion).

The line item *Banks* on the liabilities side of the balance sheet fell by EUR 1.8 billion to EUR 4.3 billion. In the final months of 2007, under influence of the credit crisis, there was great interest in placing cash surpluses with BNG.

Equity fell to EUR 1.9 billion (year-end 2007: EUR 2.1 billion). *Net profit after tax* was not enough to compensate for the dividend and the decline in the revaluation reserve. The balance of the revaluation reserve was transformed from EUR 104 million positive as of year-end 2007 to EUR 9 million negative. The unrealized negative revaluations of interest-bearing securities in *financial assets available for sale* were the main reason for this downturn, which was exacerbated by rising interest rates. The BIS-ratio core capital (Tier 1) and the BIS-ratio total assets increased by one percentage point to 19% and 21%, respectively. The capital ratio, the realized equity as a percentage of the balance sheet total, fell by 0.1 percentage point to 2.0%.

The assets under management at BNG Capital Management (BCM) remained stable at EUR 2.5 billion. The sale of the wholly-owned subsidiary Hypotheekfonds voor Overheids personeel (HVO) announced last year has not yet taken place.

The result is expected to remain under pressure in the second half of 2008 due to the conditions on the money and capital markets. The persistence of the crisis will make a substantial improvement in the result unlikely. The volatility of interest rates is still high and there is as yet no sign of a decrease in the uncertainty in the finan-

cial markets. One positive effect is that interest margins are benefiting from increasing spreads. Further growth in the lending volume will also have a small positive effect on the results. As regards operating costs, the falling costs of outsourcing in the second half of 2008 will make a positive contribution to the result. The result for the full-year 2008 is expected to show a strong decrease compared with 2007. Apart from the unrealized results and the reduced interest result due to the additional payment to shareholders, the underlying result 2008 will be comparable with that of 2007.

N.V. Bank Nederlandse Gemeenten

Executive Board

The Hague, August 29, 2008



Consolidated Balance Sheet

In millions of euros

	30-06-2008	31-12-2007	30-06-2007
Assets			
Cash and Cash Equivalents	1,155	485	261
Banks	9,068	10,067	8,592
Loans and Advances	68,990	66,037	64,780
Financial Assets at Fair Value via the Income Statement	2,817	2,989	3,553
Financial Assets Available for Sale	10,581	10,483	10,526
Other Financial Assets	1,700	1,882	2,199
Associates and Joint Ventures	107	102	36
Property and Equipment	21	19	21
Other Assets	352	536	236
Assets Held for Sale	-	2	-
<i>Total Assets</i>	94,791	92,602	90,204
Liabilities			
Banks	4,322	6,140	3,319
Funds Entrusted	6,877	6,468	6,114
Subordinated Loans	165	163	163
Debt Securities	71,173	70,005	70,908
Financial Liabilities at Fair Value via the Income Statement	226	246	182
Other Financial Liabilities	9,418	7,250	6,504
Other Liabilities	695	277	500
<i>Total Liabilities</i>	92,876	90,549	87,690
Equity*	1,915	2,053	2,514
<i>Total Liabilities and Equity</i>	94,791	92,602	90,204

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* 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 2007.

The interim report is unaudited.

Consolidated Income Statement

In millions of euros

	First half of 2008	First half of 2007
Interest Income	2,154	1,839
Interest Expenses	2,035	1,700
Interest Result	119	139
Income from Associates and Joint Ventures	2	1
Commission Income	13	12
Commission Expenses	2	3
Commission Result	11	9
Results Trading Portfolio	-	-
Results Other Financial Transactions	(19)	17
Results Financial Transactions	(19)	17
Foreign Exchange Result	0	0
Other Income	5	1
<i>Subtotal</i>	118	167
Staff Costs and Other Administrative Expenses		
Staff Costs	16	18
Other Administrative Expenses	13	9
	29	27
Depreciation	1	3
Other Operating Expenses	-	-
<i>Subtotal</i>	30	30
<i>Profit before Tax</i>	88	137
Taxation	15	26
<i>Net Profit after tax</i>	73	111

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Executive Board

P.O. Vermeulen, *Chairman*
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. Apotheker

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

	First half of 2008 ¹	First half of 2007
Cash Flow from Operating Activities		
Profit before Tax	88	137
<i>Adjustments for:</i>		
Depreciation	1	3
Additions to/Release of Provisions	-	-
	<u>1</u>	<u>3</u>
<i>Cash Flow Generated from Operations</i>	89	140
Movement in Banks (not due on demand)	(864)	362
Movement in Loans and Advances	(1,577)	1,665
Movement in Funds Entrusted	317	926
Taxes Received/Paid	(15)	(8)
Other Movements in Cash Flow from Operating Activities	(350)	(934)
	<u>(2,489)</u>	<u>2,011</u>
<i>Total Cash Flow from Operating Activities</i>	<u>(2,400)</u>	<u>2,151</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	(1,728)	(2,526)
Associates and Joint Ventures	(2)	-
Property and Equipment	(3)	-
	<u>(1,733)</u>	<u>(2,526)</u>
<i>Disposals and Repayments</i>		
Financial Assets at Fair Value via the Income Statement and		
Financial Assets Available for Sale	2,168	1,754
Associates and Joint Ventures	-	-
Property and Equipment	2	-
	<u>2,170</u>	<u>1,754</u>
<i>Total Cash Flow from Investing Activities</i>	<u>437</u>	<u>(772)</u>
Cash Flow from Financing Activities		
Receipts in respect of Debt Securities	13,071	11,037
Repayments in respect of Debt Securities	(10,510)	(12,434)
Dividend Paid	(97)	(99)
	<u>2,464</u>	<u>(1,496)</u>
<i>Total Cash Flow from Financing Activities</i>	<u>2,464</u>	<u>(1,496)</u>
Net Movements in Cash and Cash Equivalents	501	(117)
Cash and Cash Equivalents as of January 1	244	534
Cash and Cash Equivalents as of June 30	<u>745</u>	<u>417</u>
<i>Cash and Cash Equivalents as of June 30 is comprised of the following:</i>		
Cash and Cash Equivalents	1,155	261
Cash Equivalents under the Bankers (Asset) item	33	157
Cash Equivalents under the Bankers (Liability) item	(443)	(1)
	<u>745</u>	<u>417</u>

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¹ The Cash Flow Statement is prepared according to the indirect method, compared to the IFRS balance sheet dated January 1, 2008.

Consolidated Statement of Equity

In millions of euros

	First half of 2008	Year 2007	First half of 2007
<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	104	220	220
Unrealized Value Movements in Financial Assets Available for Sale	(141)	(151)	(69)
Realized Value Movements in Financial Assets Available for Sale	(1)	5	(2)
Deferred Taxes	29	30	(2)
Closing Balance	(9)	104	147
<i>Currency Translation Account</i>			
	(1)	(1)	-
<i>Other Reserves</i>			
Opening Balance	1,610	2,012	2,012
Appropriation from Profit Previous Financial Year	97	98	99
Additional Payment	-	(500)	-
Closing Balance	1,707	1,610	2,111
<i>Net Profit after Tax</i>	73	195	111
<i>Total Equity</i>	1,915	2,053	2,514

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Review report

Introduction

We have reviewed the accompanying consolidated balance sheet of N.V. Bank Nederlandse Gemeenten (the 'Company'), The Hague, as at June 30, 2008, the consolidated income statement, the consolidated cash flow statement and consolidated statement of equity for the six-month period then ended. Management of the Company is responsible for the preparation and presentation of this consolidated interim financial information in accordance with the basis of presentation set out on page 4 of this Interim Report. Our responsibility is to express a conclusion on this consolidated 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 June 30, 2008 is not prepared, in all material respects, in accordance with the basis of presentation set out on page 4 of this Interim Report.

Amsterdam, August 29, 2008

Ernst & Young Accountants LLP

signed by A.B. Roeders

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