

NWB) BANK

HALF-YEAR REPORT 2010
NEDERLANDSE WATERSCHAPSBANK N.V.

Bank of and for the public sector

Nederlandse Waterschapsbank N.V. (NWB Bank) is a leading financial services provider to the public sector. The Bank lends to water boards, municipal authorities, provincial authorities, housing corporations and healthcare institutions.

NWB Bank was founded in 1954 by Dutch water boards to provide them with funding for the substantial investments they had to make following the country's disastrous floods. All the shares in NWB Bank are held by public authorities. The Bank finances its operations on the international money and capital markets on the back of a very strong financial position and AAA ratings from Moody's and Standard & Poor's. Its robust solvency position and the high creditworthiness of public sector institutions enable the Bank to lend on favourable terms. Corporate social responsibility, a strong financial position and an efficient business strategy are the cornerstones of NWB Bank's policy.

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Report of the Managing Board

The promising first quarter of 2010 saw the western economy continue its cautious recovery, while confidence in the financial markets rose, only to be followed by a second quarter in which the debt crisis in southern Europe caused a shockwave. It sparked massive uncertainty throughout the euro zone and concerns over a double-dip recession, as well as denting the recently recovered confidence in the financial markets. The euro came under pressure, with demand and supply in the European money and capital markets experiencing friction and interest spreads on southern European government bonds soaring. As banks and investors moved to safer grounds, interest rates in stronger European countries reached historic lows. In the Netherlands, the 10-year rate fell below 3%.

Against this backdrop, lending to the Dutch public sector developed satisfactorily in the first half of 2010, with the growing demand for loans and a preference for slightly longer terms suggesting that confidence is returning. Even so, while capital market rates have plummeted, spreads are still in excess of pre-crisis levels. NWB Bank's lending volumes grew considerably in the period under review, expanding by 25% to € 3.0 billion (first half of 2009: € 2.4 billion). While the majority of loans were granted to housing corporations, lending to municipal authorities and healthcare institutions was also up. This means the Bank has maintained its position as a leading public sector lender.

Despite NWB Bank's interest result rising strongly in the first half, climbing 65% to € 47 million, profit for the period fell sharply to € 14.6 million (first half of 2009: € 35.4 million). This is due to lower market value results on loan portfolios, which almost exclusively comprise risk-free loans granted to or guaranteed by Dutch public authorities. The Bank incurred market value losses of € 23.2 million in the first half of 2010, a near mirror image of the market value gains of € 23.8 million posted in the first half of 2009.

With the majority of the Bank's assets and liabilities being measured at market value, the profit figures it has reported since it adopted IFRS in 2005 have shown relatively large fluctuations year-on-year due to unrealised market value results. These market value results are highly academic in nature, particularly where impairments for credit risks on Dutch public sector loans are concerned. NWB Bank has no doubts that the parties involved will continue to meet their pay interest and repayment obligations, which means that previously recognised unrealised market value losses will be reflected as corresponding gains in the future.

Operating expenses were in line with the budget, landing at € 5.3 million. The more than 6% rise compared with the same period in 2009 can be attributed to the expansion of the Bank's workforce and higher advisory fees and funds transfer costs.

To fund its operations, NWB Bank issued three benchmark bond loans under the Debt Issuance Programme in the first half of 2010. A total amount of € 7.1 billion was raised in the international capital market. The maximum amount that may be raised under the programme was increased to € 50 billion. NWB Bank has been very active under its Euro Commercial

Paper Programme, issuing money market paper worth € 16.0 billion at highly attractive terms in the first half of 2010, thereby capitalising on investors' flight to safety.

Owing to the Bank's risk-free loans portfolio, its solvency is very high. The solvency ratio, based on risk-weighted Tier-1 capital, stood at 51.8% at 30 June 2010 (31 December 2009: 51.4%). This means the Bank comfortably meets the capital adequacy requirements under the Basel II supervisory regime, which include a minimum solvency ratio of 8%. The AAA credit ratings Moody's and Standard & Poor's have awarded NWB Bank support this. The Bank's equity, which almost exclusively comprises Tier-1 capital, was maintained at just over € 1 billion. The strong growth in total assets by nearly € 8 billion to more than € 60 billion caused the capital ratio – i.e. equity expressed as a percentage of total assets – to drop from 2% to 1.7%. Of the growth in total assets, some € 6 billion can be ascribed to higher market values and money market issues. In addition, the Bank's overall loans portfolio grew by € 2 billion on balance.

The Basel Committee recently issued new capital and liquidity requirements for banks, known as Basel III, which are envisaged to become effective from 2018. Accordingly, NWB Bank will review its dividend and reserves policy on the basis of new requirements, which include a 3% minimum leverage ratio (equity expressed as a percentage of total assets). Although NWB Bank's low risk profile lends it one of the highest solvency ratios in the world, the introduction of the minimum leverage ratio may prompt it to pursue a stricter dividend policy in favour of the Bank's future capitalisation.

In line with its earlier forecast, NWB Bank expects interest result for the whole of 2010 to be more or less unchanged from 2009 (€ 92 million). No statement can be made about the market value results the Bank expects, given their sensitivity to fluctuations in interest rates and interest spreads on public sector loans. For the sake of prudence, the Managing Board is working on the assumption that the market value losses seen in the first half will not improve in the second half of 2010. Against this background, NWB Bank expects its net profit to be below that for 2009.

Responsibility statement

The Managing Board declares that, to the best of its knowledge, the half-year figures give a true and fair view of the Bank's assets, liabilities, financial position and profit, and the half-year report includes a fair review of the information required pursuant to section 5:25d, subsection 8 of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*).

The Hague, the Netherlands, 27 August 2010

The Managing Board

R.A. Walkier (Chairman)

Ms. L.M.T. van Velden

Statement of income

for the first half of 2010

(in millions of euros)	First half 2010	First half 2009
Interest income	868.6	887.1
Interest expense	821.6	858.6
Interest	47.0	28.5
Commission income	0.0	0.1
(Un)realised value changes in fair value portfolio	-23.2	23.8
Total operating income	23.8	52.4
Employee benefits expense	2.1	2.0
Other administrative expenses	2.7	2.5
Employee benefits expense and other administrative expenses	4.8	4.5
Depreciation and amortisation	0.5	0.4
Total operating expenses	5.3	4.9
Profit before income tax	18.5	47.5
Income tax expense	3.9	12.1
Profit for the period	14.6	35.4

Statement of financial position

as at 30 June 2010

(in millions of euros)	30 June 2010	31 December 2009
Assets		
Cash	88	467
Financial assets stated at fair value through profit or loss	43,666	39,260
Available-for-sale financial assets	1,049	928
Derivative assets	5,511	2,642
Bank loans and receivables	3,586	2,647
Public sector loans and receivables	6,241	6,250
Income tax	18	26
Property and equipment	5	5
Intangible assets	1	1
Deferred tax assets	28	34
Other receivables	22	28
Accruals	131	134
Total Assets	60,346	52,422
Equity and liabilities		
Banks	877	323
Financial liabilities stated at fair value through profit or loss	43,407	37,833
Derivative liabilities	6,697	4,950
Funds entrusted	2,388	2,308
Debt securities	5,797	5,755
Other liabilities	66	69
Accruals	85	136
	59,317	51,374
Paid-up share capital	7	7
Available-for-sale reserve	-23	-29
Other revaluation reserves	1	1
General reserve	1,029	1,012
Profit for the year	15	57
Equity	1,029	1,048
Total Equity and liabilities	60,346	52,422

Statement of comprehensive income

for the first half of 2010

(in millions of euros)	First half 2010	First half 2009
Net changes in fair value of available-for-sale financial assets	8.4	-10.6
Income tax on income and expense recognised directly in equity	-2.1	2.7
Income and expense recognised directly in equity	6.3	-7.9
Profit for the period	14.6	35.4
Comprehensive income	20.9	27.5

Statement of changes in equity

as at 30 June 2010

(in millions of euros)	Paid-up share capital	Available-for-sale reserve	Other revaluation reserves	General reserve	Profit for the period	Total
As at 31 December 2009	7	-29	1	1,012	57	1,048
Profit appropriation of previous year				57	-57	-
Dividends				-40		-40
Changes in fair value of available-for-sale financial assets recognised directly in equity		6				6
Profit for the period					15	15
As at 30 June 2010	7	-23	1	1,029	15	1,029
As at 31 December 2008	7	-13	1	1,043	9	1,047
Profit appropriation of previous year				9	-9	-
Dividends				-40		-40
Changes in fair value of available-for-sale financial assets recognised directly in equity		-8				-8
Profit for the period					35	35
As at 30 June 2009	7	-21	1	1,012	35	1,034

Statement of cash flows

for the first half of 2010

(in millions of euros)	First half 2010	First half 2009
Net cash flows used in operating / banking activities	-2,188	-3,825
Net cash flows from investing activities	131	220
Net cash flows from financing activities	1,678	3,741
Cash flow	-379	136
Cash flow	-379	136
Cash and cash equivalents as at 1 January	467	73
Cash and cash equivalents as at 30 June 2010	88	209
Cash and cash equivalents comprise:		
Banks, balances available on demand		
Banks, cash and call loans	88	209
Cash and cash equivalents as at 30 June 2010	88	209

Notes to the half-year report

1. Corporate information

NWB Bank is a public limited liability company established in The Hague, whose shares are owned by public authorities. NWB Bank's services are geared exclusively to the public sector. It finances water boards, municipal authorities and provincial authorities, as well as other public sector bodies, such as housing corporations, hospitals and educational institutions.

The figures of NWB Bank for the first half of 2010 were prepared under the responsibility of the Managing Board.

2. Basis of preparation

The figures for the first half of 2010 have been prepared in accordance with IAS 34 "Interim Financial Reporting", as endorsed by the European Union.

The half-year figures have been prepared on the same basis as the 2009 financial statements. This half-year report does not contain all the information and disclosures required for the full-year financial statements and should therefore be read in conjunction with the financial statements of NWB Bank as at 31 December 2009.

Measurement

Upon initial recognition, financial assets are classified as loans and receivables, financial assets stated at fair value through profit or loss, available-for-sale financial assets or derivative assets. The loans and receivables are measured at amortised cost. The financial assets stated at fair value through profit or loss, the available-for-sale financial assets and the derivative assets are measured at fair value.

Upon initial recognition, financial liabilities are classified as financial liabilities stated at fair value through profit or loss, derivative liabilities or other liabilities. The other financial liabilities are measured at amortised cost. Financial liabilities stated at fair value through profit or loss and the derivative liabilities are measured at fair value.

Fair value of financial instruments

For the purposes of the 2010 half-year report, the swap curve was used to value loans receivable and payable for finance periods up to two years, while a straight-line spread of 40 basis points at a maximum, based on market prices, was used for finance periods between two and ten years. This is in line with the 2009 financial statements. Periods longer than ten years are still characterised by illiquidity. For these periods, NWB Bank continues to apply the swap curve as used in previous periods, partly because this is the level the Bank believes the prices will move towards in due course once the market recovers. Both structured foreign-currency funding transactions and variable-interest loans are valued at the swap curve, with no spread.

Using spreads of 30 basis points at a maximum rather than 40 basis points for periods up to ten years in the first half of 2010 would have led to an additional unrealised gain in the fair value portfolio of € 22.6 million compared with the method chosen. A spread of 50 basis points rather than 40 basis points at a maximum for periods up to ten years would have led to an additional unrealised loss in the fair value portfolio of € 22.1 million.

NWB Bank continues to use the swap curve to value derivatives. This is the price at which the Bank closes swaps because the credit risk on the swap market is rationed and the credit risks with the large players are mitigated by the exchange of collateral.

Upon initial recognition, the use of models may give rise to differences between the transaction price and the calculated fair value. Any differences are not recognised directly in profit or loss, but amortised over the term of the transactions.

Application of fair value option

NWB Bank applies the fair value option under IFRS as part of its accounting policies. Under this system, certain financial assets and liabilities are measured at fair value (the fair value portfolio) and the changes in value are recognised in profit or loss. Various conditions must be met. NWB Bank believes that the relevant requirements have been met, resulting in consistency in the reported income and expenditure allocation to the various financial years.

Hedge accounting

Under hedge accounting, the recognition of a hedging instrument and the accompanying hedged position can be synchronised insofar as the hedging is effective. Hedge accounting is permitted only if adequate documentation has been prepared and the required effectiveness of the hedge is demonstrated and analysed regularly.

NWB Bank has hedged the interest rate and currency risks in the item Available-for-sale assets using interest rate and currency derivatives. Fair value hedge accounting is applied to these positions, that is to say that NWB Bank has demonstrated that there is an effective relationship between the change in value of the hedged interest rate and currency risks and the change in value of the hedging instrument. For the effective part of the hedge, the change in value of the hedged position is recognised in profit or loss under (Un)realised changes in fair value portfolio. The remaining changes in value of the relevant Available-for-sale assets not effectively hedged in the hedging relationship are recognised in equity. The changes in value of the derivatives concerned are recognised in profit or loss under (Un)realised changes in fair value portfolio.

Issue and repayment of debt instruments

Long-term debt instruments were issued for an amount of € 7,112 million and repaid for an amount of € 5,360 million. Short-term instruments of € 16,023 million were borrowed and € 16,057 million repaid.

Dividend

The proposed dividend presented in the 2009 financial statements for that year was distributed net of dividend tax to the shareholders subsequent to the General Meeting of Shareholders. The total dividend paid in cash amounted to € 40 million, representing a dividend of € 678.08 per share.

Income tax expense

(in millions of euros)	First half 2010	First half 2009
Current tax		
Tax on the profit for the current financial year	4.7	12.1
Deferred tax as a result of temporary differences	-0.8	0.0
Income tax expense	3.9	12.1
Profit before income tax	18.5	47.5
Tax at 25.5%	4.7	12.1

Deferred tax

The tax assessments for 2005 and 2006 were definitively established and settled in the first half of 2010.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the spot middle rates (Amsterdam exchange rates) ruling at the reporting date.

NWB Bank borrows significant amounts in foreign currencies. The associated risks are immediately and fully hedged by means of currency swaps. The currency risks run by NWB Bank are minimal.

Review report

To: the Shareholders and the Management of
Nederlandse Waterschapsbank N.V.

Introduction

We have reviewed the accompanying (condensed) interim financial information for the 6 month period ended 30 June 2010, of Nederlandse Waterschapsbank N.V., The Hague, which comprises the balance sheet as at 30 June 2010, the statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and the selected explanatory notes for the 6 month period then ended. Management is responsible for the preparation and presentation of this condensed 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 of Review

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the 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 (condensed) 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.

Amstelveen, 27 August 2010

KPMG ACCOUNTANTS N.V.
M. Frikkee RA

Headline figures

(in millions of euros)

Statement of financial position

	2009	2008	2007	2006	2005
Long-term loans and advances	40,172	35,934	31,992	28,806	26,297
Equity	1,048	1,047	1,091	1,310	1,264
Total assets	52,422	48,396	38,770	35,172	33,156
Risk-weighted assets	1,721	1,561	1,093	1,107	1,089

Results

Interest	92	128	114	125	126
Operating income	90	26	107	158	144
Operating expenses	10	10	9	9	9
Contribution to NWB Fonds	4	4	4	6	
Income tax	19	3	23	45	-61
Profit for the year	57	9	71	98	197

Dividend

Dividend payment	40.0	40.0	40.0	40.0	40.0
Dividend per share in euros	678.08	678.08	678.08	678.08	678.08

Ratios (%)

BIS Solvency ratio ¹⁾	51.4	53.2	68.1 ²⁾	114.6	109.9
Operating expenses/interest ratio	10.9	7.8	7.9	7.2	7.1
Dividend pay-out ratio	70.2	100.0 ³⁾	56.6	40.9	20.3
Capital ratio	2.0	2.1	2.7	3.6	3.7

1) Up to the end of 2006: BIS Tier-1 ratio

2) Comparable BIS Tier-1 ratio: 96%

3) Excluding payment of € 31 million charged to the general reserve

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A.J.A.M. Segers (Deputy Chairman)

J.C.K.W. Bartel (until 22 April 2010)

Ms E.F. Bos

V.I. Goedvolk

E.H. baron Van Tuyll van Serooskerken

B.J.M. baron Van Voorst tot Voorst

Prof. J.J.M. Jansen (since 22 April 2010)

Managing Board

R.A. Walkier (Chairman)

Ms L.M.T. van Velden

NWB) BANK