NWB BANK

ANNUAL REPORT 2010

NEDERLANDSE WATERSCHAPSBANK N.V.

Good Governance

It is fundamental that bankers make a maximum effort to restore the confidence of their clients. For this reason, we chose to use "Good Governance" as the theme of this Annual Report. Besides robust rules, perception and emotion are determinative factors in applying good governance.

One of the initiators of the Banking Code, Boele Staal, Chair of the Dutch Banking Association, shares his view on this subject. Furthermore, we interviewed representatives from the borrowing sectors, asking them how they deal with governance. They are Marc Calon, Chair of housing corporations umbrella organisation Aedes, Bernt Schneiders, mayor of the city of Haarlem and Chair of the Dutch Association of Mayors, and Peter Glas, Chair of the Dutch Association of Water Boards.

ANNUAL REPORT 2010

NEDERLANDSE WATERSCHAPSBANK N.V.

Contents

Headline figures

(in millions of euros)	2010	2009	2008	2007	2006

Statement of financial position

Long-term loans and advances	**43,172**	40,172	35,934	31,992	28,806
Equity	**1,068**	1,048	1,047	1,091	1,310
Total assets	**57,219**	52,422	48,396	38,770	35,172
Risk-weighted assets	**897**	1,721	1,561	1,093	1,107

Results

Interest	**104**	92	128	114	125
Realised/unrealised changes in fair value portfolio	**-40**	-2	-102	-7	21
Operating income	**64**	90	26	107	158
Operating expenses	**11**	10	10	9	9
Contribution to NWB Fonds	**2**	4	4	4	6
Income tax	**13**	19	3	23	45
Profit for the year	**38**	57	9	71	98

Dividend

Dividend payment	**23.0**	40.0	40.0	40.0	40.0
Dividend per share (in euros)	**390**	678	678	678	678

Ratios (%)

BIS solvency ratio [1]	**94.5**	51.4	53.2	68.1 [2]	114.6
Operating expenses/interest ratio	**10.6**	10.9	7.8	7.9	7.2
Dividend pay-out ratio	**59.9**	70.2	100.0 [3]	56.6	40.9
Capital ratio	**1.9**	2.0	2.1	2.7	3.6

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

Managing Board

R.A. Walkier (1953), Chairman

Joined NWB Bank in 1991, appointed to the Managing Board in February 1993, Chairman since April 2008

Portfolio

Strategy, lending, funding, asset and liability management, compliance, Internal Audit Department, legal affairs, human resources, communications

L.M.T. van Velden (1964)

Joined NWB Bank in October 2008, member of the Managing Board since January 2010

Portfolio

Finance, risk management, back office, ICT, security & facility management, tax

Management Team

R.A. Walkier, Chairman
L.M.T. van Velden
P.L. Bax, Back Office and Finance
A.G. van Eijl, Risk Management
A.R.L. Hoogendoorn, Internal Audit
T.A.J.O. Meuwissen, Treasury
H.N.W. van Rooijen, Legal Affairs
M.H.J. Vaessen, IT

Employees

Legal Affairs
H.N.W. van Rooijen
J.A. Kramer
K.M. Petrici

Treasury
T.A.J.O. Meuwissen
P.C. Heymans
B.R den Hoed
G.L. Knoester

Internal Audit
A.R.L. Hoogendoorn
R.M. Gode
R.A. Holten

Risk Management
A.G. van Eijl
O.B. Bunnik
R. Versteeg

Management Support
J.M. van Dam
J. van Oostrom

Human Resources
M.N. Bauman

Security & Facility Management
B.A. Kuipers
J.J. Mahmoud
D. Verdoes

IT
M.H.J. Vaessen
A.W. Geers
R. Heemskerk
M.W. van der Meer

Back Office and Finance
P.L. Bax
M. Bakker
M. van den Berg
S.R. Bosman
D. Buck
B. van Eenige
A. de Jong
R. Kalloe
J.W. Kievith
A. van Koert
A.F. van der Kooij
P.C. Kuiper
F. Montagne
J.H. van Oostrom
S. Rijs
C.M.J. Verheul

Supervisory Board

Professor R.G.C. van den Brink (1948)[3][4]

Position Chairman
Year of first appointment 2002
Term of office ends in 2014
Last position held:
Chief Economic Adviser to the Managing Board of ABN AMRO
Relevant other positions:
Professor of Financial Institutions
at the University of Amsterdam (UvA)
Supervisory Director of Akzo Nobel N.V.
Supervisory Director of Legal & General Nederland N.V.

V.I. Goedvolk (1944)[1]

Year of first appointment 2004
Term of office ends in 2011
Last position held:
Board member of Fortis ASR N.V.
Relevant other positions:
Supervisory Director of UCN N.V.
Member of the Board of Urenco Ltd.
Supervisory Director of VVAA Groep B.V.
Chairman of the Supervisory Board
of Loyalis N.V.
Member of the Supervisory Committee of
Waarborgfonds voor de Zorgsector

E.F. Bos (1959)[3]

Year of first appointment 2008
Term of office ends in 2012
Principal position:
Member of the Executive Committee of PGGM N.V.
Relevant other positions:
Supervisory Director of Alpinvest Partners N.V.
Supervisory Director of Amvest Vastgoed B.V.
Member of the Supervisory Committee of Isala Klinieken
Supervisory Director of Stichting Waarborgfonds
Eigen Woningen
Member of the Board of Sustainalytics B.V.
Board member of UN-PRI (United Nations Principles
on Responsible Investments)

Professor J.J.M. Jansen (1954)

Year of first appointment 2010
Term of office ends in 2014
Principal position:
Member of the Advisory Division of the Council of State
Relevant other positions:
Professor of Tax Law at the School of Law of Erasmus University Rotterdam
Deputy justice in the Tax Division of the Leeuwarden Court of Appeal

B.J.M. baron van Voorst tot Voorst (1944)[4]

Year of first appointment 2009
Term of office ends in 2013
Last position held:
Queen's Commissioner of the Province of Limburg
Relevant other positions:
Supervisory Director of NIBA Beheer N.V.
Supervisory Director of Huco Handel- en Scheepvaartmaatschappij N.V.

E.H. baron van Tuyll van Serooskerken (1940)

Year of first appointment 2001
Term of office ends in 2013
Last position held:
Dyke Reeve of Water Board Rijnland
Relevant other positions:
Supervisory Director of BTL Beheer B.V. (until 31 December 2010)
Member of the Supervisory and Advisory Committee of Zorgbalans

A.J.A.M. Segers (1941)[2]

Position Deputy Chairman
Year of first appointment 2000
Term of office ends in 2011
Last position held:
Water Reeve of Water Board De Dommel and Water Board De Aa
Relevant other positions:
Supervisory Director of Waterleiding Maatschappij Brabant Water

1) Chairman of the Audit and Risk Committee 2) Chairman of the Remuneration and Appointment Committee
3) Member of the Audit and Risk Committee 4) Member of the Remuneration and Appointment Committee

Report of the Supervisory Board

Financial statements and dividend proposal

We are pleased to present the 2010 Annual Report of NWB Bank. It contains the financial statements of the Bank, signed by the Managing Board and the Supervisory Board and subsequently audited and approved by KPMG Accountants N.V.

We propose that you adopt the 2010 financial statements as submitted. We further propose that, with respect to the financial statements, you endorse the conduct of affairs by the members of the Managing Board and the supervision exercised by the members of the Supervisory Board in the past financial year.

This report sets out a proposal from the Managing Board to amend the dividend and reserve policy. More details can be found on page 18 in the Report of the Managing Board. In accordance with the proposal for the 2010 financial year included in the financial statements, a dividend of € 389.90 per share will be distributed.

Composition of the Supervisory Board

At the Annual General Meeting of Shareholders held on 22 April 2010, Dr J.C.K.W. Bartel stood down on reaching his maximum term of office. Dr Bartel has been a member of the Supervisory Board since 1998 and a member of the Audit and Risk Committee (previously named Audit Committee) since 2003. We wish to express our gratitude to Mr Bartel for his commitment, his involvement in the Bank and the contribution of his tax expertise. We likewise thank Mr Bartel for his constructive and critical approach during meetings.

The General Meeting of Shareholders filled the vacancy in question by appointing Professor J.J.M. Jansen, professor of tax law and a member of the Advisory Division of the Council of State, in accordance with the nomination of the Supervisory Board. Professor R.G.C. van den Brink, Chairman of the Supervisory Board, stood down by rotation during the Annual General Meeting. He was reappointed by the Meeting in accordance with the nomination of the Supervisory Board.

At the Annual General Meeting of Shareholders to be held on 28 April 2011, Mr V.I. Goedvolk and Mr A.J.A.M. Segers will stand down by rotation. As Mr Segers will reach his maximum term of office, he will not be eligible for reappointment. Mr Goedvolk will be nominated for reappointment.

We are of the opinion that the composition of the Supervisory Board is such that its members are able to operate critically and independently of one another and of the Managing Board. The overall profile for the composition of and appointment to the Supervisory Board sets out requirements in this respect. Besides satisfying the requirements set in the overall profile, new Board members must possess the specific expertise and competencies listed in an individual profile. The Supervisory Board promotes its independent operations by ensuring the diversity of its composition in terms of such factors as age, gender, expertise and social background. All members of the Supervisory Board are independent within the meaning of the Dutch Corporate Governance Code.

Plenary meetings

The Supervisory Board met on seven occasions during the year under review. Recurring items on the agenda of the meetings were the statement of financial position and the statement of income, developments in the financial markets, lending, the Bank's funding, the report and management letter of the external auditor, the strategic policy, risk management, the budget, the social policy, and reports of the Audit and Risk Committee and the Remuneration and Appointment Committee.

Other topics considered during Board meetings included corporate governance, the Banking Code, remuneration policy, lifelong learning, ICT policy, treasury banking *(schatkistbankieren)*, the update and increase of the Debt Issuance Programme, interest rate risk management, ICAAP (Internal Capital Adequacy Assessment Process) in 2010, the introduction of hedge accounting for new lending, credit risk management, the strategy study, stress scenarios, funding and investor diversification, and the vacancy on the Board and the Remuneration and Appointment Committee resulting from Mr Segers' retirement in April 2011.

The profiles and regulations for the Supervisory Board and its committees, as well as the Managing Board's regulations, were comprehensively revised following the introduction of the updated Dutch Corporate Governance Code on 1 January 2009 and the Banking Code on 1 January 2010. The whistleblowing procedure was likewise amended. The updated documents have been posted on the Bank's corporate website.

Within the context of the Board members' lifelong learning programme, employees and external advisors held various presentations, including on markets and products, accounting, risk management and compliance.

The Managing Board provided the Supervisory Board with up-to-date information and, where necessary, consulted the Supervisory Board on the policy to be pursued. For example, the Supervisory Board is involved in a study into NWB Bank's strategy. The Supervisory Board was able to properly carry out its role as a supervisory body in the year under review and has expressed its confidence in the policy pursued. In addition, the Board once discussed, among other topics, the performance of the Managing Board, without its members being present. The Board will again evaluate its own performance in the first half of 2011. The performance of the Supervisory Board and the Managing Board (both of the Boards collectively and of their individual members) was previously assessed in a study performed under the supervision of Professor J.A. van Manen of the University of Groningen in 2008. Such an assessment, conducted under independent supervision, will again be held in early 2012.

Audit and Risk Committee

The members of the Audit and Risk Committee are V.I. Goedvolk (Chairman), E.F. Bos and Professor R.G.C. van den Brink.

In compliance with the Banking Code, which assumes the existence of a risk or similar committee, the Audit Committee was renamed Audit and Risk Committee. Given the small size of the Bank's organisation and of the Supervisory Board, no separate risk committee was set up. Although the former Audit Committee used to devote a large proportion of its time to risk management topics, this will be increased. The nature of the Committee's work has largely remained unchanged.

In the year under review, the Audit and Risk Committee met six times with the Managing Board being present. One meeting was held with the external auditor and the internal auditor without the Managing Board being present. Topics considered included developments on the money and capital markets, financial results, the half-year and annual figures, the reports of the external auditor and the Internal Audit Department, the budget, risk management, ICAAP in 2010, the framework for non-parallel interest rate risks, the measurement method used for the fair value portfolio, the introduction of hedge accounting for new lending, the redesign of the IT role, stress scenarios, the Bank's tax position, the VaR method and the credit risk management policy.

Remuneration and Appointment Committee

The composition of the Remuneration and Appointment Committee changed in 2010. Until 27 August 2010, the members of the Remuneration and Appointment Committee were A.J.A.M. Segers (Chairman), E.F. Bos and Professor R.G.C. van den Brink. With effect from that date, Ms Bos stood down as a Committee member at her own request. She was succeeded by B.J.M. baron van Voorst tot Voorst. This means the Remuneration and Appointment Committee now comprises A.J.A.M. Segers (Chairman), Professor R.G.C. van den Brink and B.J.M. baron van Voorst tot Voorst.

The Remuneration and Appointment Committee met four times in the year under review. The topics it discussed included the variable remuneration of the members of the Managing Board for 2009, the bonus plan for senior management, the Bank's regulations as brought into line with the updated Corporate Governance Code and Banking Code, the individual profile, lifelong learning, membership of the Supervisory Board's committees and the vacancy on the Supervisory Board and the Remuneration and Appointment Committee following Mr Segers' departure on 28 April 2011.

Remuneration policy

The remuneration policy with respect to the Managing Board is adopted by the General Meeting of Shareholders on a proposal of the Supervisory Board. The Annual General Meeting of Shareholders of 22 April 2010 approved the proposal entailing a maximum salary (including fixed and variable remuneration) of € 280,000 to be paid to the Managing Board's Chairman and a maximum of 85% of that amount for other members of the Managing Board. The new remuneration policy has retroactive effect to 1 January 2010 and applies to newly appointed members of the Managing Board as from that date.

Corporate governance

The Dutch Banking Code took effect on 1 January 2010. Key topics it addresses are the duties and performance of the Managing and Supervisory Boards, the risk management and audit functions, and principles governing the remuneration policy. NWB Bank has taken various steps aimed at implementing the provisions of the Code. They are discussed in more detail in the "Corporate Governance" section on page 32 of this Annual Report, which also addresses other developments in NWB Bank's corporate governance.

The Hague, 23 March 2011

Supervisory Board

R.G.C. van den Brink
A.J.A.M. Segers
E.F. Bos
V.I. Goedvolk
J.J.M. Jansen
E.H. van Tuyll van Serooskerken
B.J.M. van Voorst tot Voorst

Boele Staal,

Chair of the Dutch Banking Association

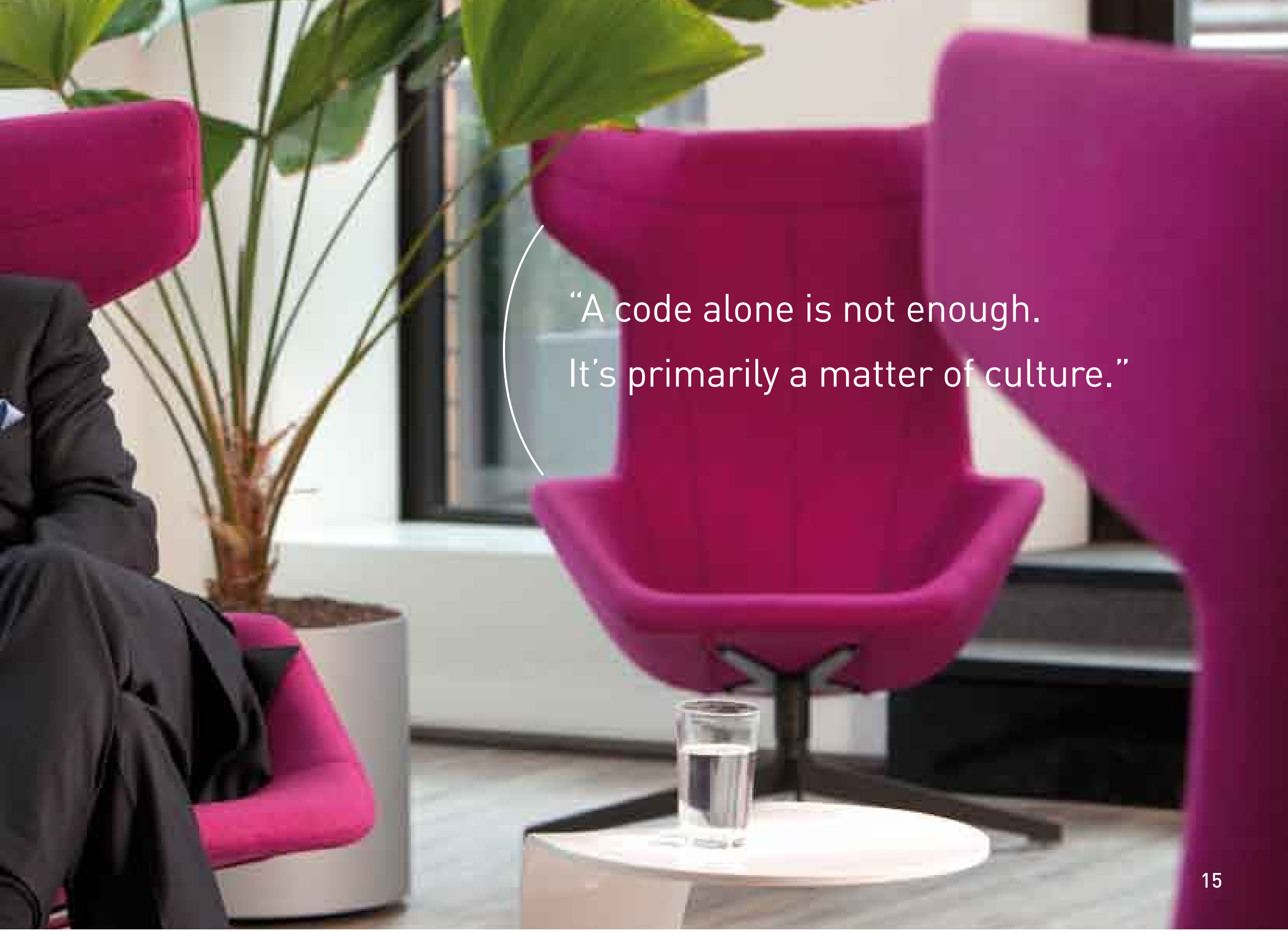
"Anybody departing from our Code has some explaining to do"

Boele Staal is the Chair of the NVB, the Dutch Banking Association. That Association's members include almost all Dutch banks and non-Dutch banks that have branches in this country. Following the credit crunch, the subject of governance has been placed prominently on the NVB's agenda, in part based on the report published by the Advisory Committee on the Future of Banks (Maas Committee). That Committee was set up by the NVB, and advocated a fundamental reorientation in the banking sector. Boele Staal served as Queen's Commissioner in the Province of Utrecht from 1998 until 2007.

"The eight largest banks are represented on our Board. The smaller banks and foreign banks have two seats. The chair used to rotate among the major banks, but that changed four years ago. The Association wanted an outsider as its Chair, and preferably someone with a background in administration and politics who knew his way around in government circles. I'd never worked in the banking world, and being a relative outsider allows me to operate more independently and if necessary I can overcome differences more easily."

"The credit crunch caused a great deal of criticism of banks. Their only option was to address that criticism. To me, the usefulness and necessity of the Maas Committee were impossible to overlook. Looking back on the crisis, my analysis is that the Western world pushed borrowing to its very limits, and sometimes in fact crossed the line. Many unwise risks were taken, particularly in the US, which ended up on balance sheets elsewhere. The financial sector did not foresee that happening."

"The NVB has translated the recommendations put forward by the Maas Committee into the Banking Code, which governs such issues as risk management, client focus and remuneration by establishing principles.



All our members that are domiciled in the Netherlands are obliged to operate in compliance with the Code. One element that I feel is vital in this connection is the approval of banking products. Such products may no longer be supply-driven, but must demonstrably meet market-driven consumer demand. And all possible risks associated with them must be carefully considered. Another essential part of the code is remuneration policy. In the past, such policies included the wrong incentives. Those incentives have now been removed, because bankers should not be awarded huge bonuses for selling manifestly substandard products.”

“A code alone is not enough. It’s primarily a matter of culture. The banks are doing all they can to rediscover their public function, as it were, and restore confidence in them. They are putting client service first. Other parties also play a part here, though. The credit crunch cannot simply be attributed to a single sector. I believe that it is a matter of shared responsibility. The banks, but also businesses, governments and consumer organisations, have all learned a lesson and must act differently from now on.”

“The Banking Code is currently unique. Other countries do not yet operate in this fashion. I understand that the image of failing and self-enriching banks that arose during the credit crunch lingers on. However, I feel that people should not go to extremes in their focus on it. People are suspicious, of course. But by now positive developments should also start to receive some attention. You can be sure that many, many people in our sector, with 250,000 employees, were just as shocked as the rest of the world. There’s a general awareness of the need to shake things up. That will have to be communicated continually during the coming period. And if some or all of the desired changes are nevertheless not put into motion, or not sufficiently, public opinion and shareholders will be among the first to act. Eventually, the Code will become a form of governance for our entire sector. Anybody departing from it will have some explaining to do.”

Report of the Managing Board

Economic developments

Throughout 2010, the world struggled to release itself from the grip of the financial and economic crisis. Sustained support from governments and central banks served to consolidate the recovery that had budded in 2009. The flip side of unprecedented government intervention, however, was that government debts soared, sparking a sudden debts crisis in the European Union in the spring of 2010.

Prompted by the turmoil in the financial markets, investors decided to eschew government bonds from the weaker euro countries altogether, causing interest spreads between euro countries to rise sky-high. Interest on Greek government bonds exploded, from 2% early in the year to almost 10% in the spring of 2010. Likewise, interest spreads between Irish, Portuguese and Spanish government bonds and those of strong euro countries, such as Germany and the Netherlands, widened considerably. Government support, ECB market intervention, the establishment of a European stability fund and IMF assistance – it seemed as if nothing could alleviate the situation. Suddenly, confidence in the continued existence of the euro had become a serious discussion item, all eyes turning to Germany and France in particular, to see what their political intentions were in terms of keeping the euro alive.

Meanwhile, the stability of the financial system was tested once more, after the Lehman collapse had unfolded in 2008. The ECB was forced not only to maintain its expansionary policy but also to intervene in the capital markets, buying government bonds. The debts crisis has spread stronger dissension in the euro zone, moot points being budgetary discipline and the way in which individual countries are having to bear the consequences of their own "failures". Tellingly, weaker euro countries are paying higher interest spreads. Germany has made it clear that it will not support the issuance of European government bonds aimed at enabling the weaker countries to finance their government debts at lower, "European", interest rates. This means the current interest spreads act as a correction mechanism, spurring individual euro countries to exercise budgetary discipline.

The key question is how the debts crisis will impact the sustained recovery of the real economy in 2011. Besides positive elements, the economy still has fundamentally weak spots. Not all bubbles have deflated, unemployment rates remain high, population ageing is a growing problem, the property sector is still ailing, and where many fear the deflation spectre, others are concerned that inflation might pick up. Added to this is the fact that the financial markets have still not reverted to their normal conditions, while financial institutions are facing the challenge of doing some more housekeeping and satisfy the more stringent capital and liquidity requirements looming under Basel III. Although the real economy has bottomed out now, much work remains to be done, while the crisis continues to make itself felt. It is imperative, in every possible respect, that markets, investors and consumers regain their confidence.

Overview of financial results for 2010

For NWB Bank, 2010 was successful in several respects. Of our core operations, lending grew sharply. NWB Bank's lending was up 48% on 2009, reaching € 7 billion in 2010 (2009: € 5 billion), almost equalling the all-time record volume achieved in 2008. The Bank also maintained its market shares as one of the largest providers of finance to the public sector. Furthermore, in terms of its own funding, the Bank operated very successfully on the international capital markets, issuing bond loans under its € 50 billion Debt Issuance Programme. Remarkably, in these times of financial turmoil and doubts as to the creditworthiness of market parties, NWB Bank's AAA ratings enabled it to raise a large amount in the market once more. We issued bonds for a total amount of € 10 billion. With capital moving into safer grounds in times of uncertainty, the Bank was able to benefit from its low risk profile. The European government debts crisis has propped up interest spreads in 2010, which even AAA parties must pay. If risk spreads went back to more usual levels, this would bring about a better balance between price and risk of debt instruments, heralding a return to more stable financial markets.

Profit for 2010 shows a less positive trend, It was down 33%, falling to € 38 million (2009: € 57 million), due mainly to unrealised market value losses. At € 23 million, these accounting write-downs were significantly up on 2009, when only € 3 million was charged against profit. Market value losses were driven partly by the risk spreads that currently apply in the market to loans granted to NWB Bank's effectively risk-free customers, such as municipal and provincial authorities, water boards and such government-backed institutions as housing corporations and healthcare institutions. As risk spreads return to lower levels and loans mature, these unrealised market value losses will be reflected as corresponding unrealised market value gains in the future. In addition, a market value loss of € 17 million was realised as securities were sold.

Based on current post-crisis insights, it would appear that the choice made upon conversion to IFRS in 2005 to measure the Bank's assets and liabilities at market value does not suit the nature of its operations very well. The unrealised losses arising from risk spreads on loans which the Bank provides to or which are guaranteed by Dutch local authorities are of an accounting nature. While the credit risk (and, hence, the repayment risk) on those parties is extremely low, the Bank does not sell these loans before they expire, but holds them until they mature. The continued use of this accounting policy may well result in further substantial unrealised market value losses, both this year and in the years ahead, due to continuing high risk spreads on long-term loans to effectively risk-free debtors. This year, the Bank will therefore study its options for switching, as much as possible, to accounting policies that better suit its operating model. For this reason, a start was made to use hedge accounting for all new loans with effect from 2011.

Another component of profit, net interest income, developed favourably, landing at € 104 million (2009: 92 million) This increase resulted from the sale of loans, aiming to further reduce NWB Bank's already limited sensitivity to potentially higher future interest rates.

Operating expenses climbed by more than 7% to € 11 million (2009: € 10 million), driven by higher consultancy fees relating to accounting, the IT organisation and a study into the Bank's strategy and policies. Besides operating expenses, NWB Bank made a € 2 million contribution to NWB Fonds. The Bank co-founded NWB Fonds with the water boards in 2006 with the aim of lending financial support to international water management and sanitation projects which the water boards undertake. This brings the Bank's total contributions to NWB Fonds over the past years to € 20 million.

NWB Bank's equity – which almost exclusively comprises Tier I capital – increased slightly in 2010. With total assets rising relatively sharply, to € 57 billion (year-end 2009: € 52 billion), the capital ratio (equity expressed as a percentage of total assets) had fallen to 1.9% by year-end 2010 (year-end 2009: 2%). Total assets grew by 9%, outpacing the 7% growth in lending. Of total assets, almost € 9 billion (2009: € 5 billion) represents the market value of long-term loans, securities and swap positions entered into to hedge against interest rate and currency risks. The BIS solvency ratio, a measure of credit-weighted risk inherent in the Bank's assets and liabilities, rose sharply in 2010, landing at 94% (year-end 2009: 51%). The main cause of the increase was the fact that the Bank optimised its collateral management and the netting opinions for counterparty banks, causing total risk-weighted assets to fall by almost half. Given the minimum ratio of 8% prescribed by De Nederlandsche Bank (the Dutch Central Bank), NWB Bank boasts a substantial solvency surplus, making it one of the safest banks in the world. The Bank's AAA ratings and its government ownership provide it with maximum access to capital markets and allow it to stipulate favourable funding terms.

Addition to the reserve; dividend

With the prior approval of the Supervisory Board, the Managing Board has decided to appropriate € 15 million of the profit for the year of € 38 million to the Bank's general reserve. At year-end 2010, the general reserve stood at € 1 billion. The Managing Board proposes that 60% of profit for the year, or € 23 million, be distributed as a cash dividend to shareholders, equalling € 389.90 per share.

The Bank's dividend and reserve policy is based on a strategy of consistency, which is aimed at distributing a dividend that is consistent and reasonable in relation to the profit realised insofar as the Bank's capital position remains solid according to the applicable regulatory standards.

As announced in the half-year report 2010, the Bank reviewed its dividend and reserve policy in the light of the new and stricter capital and liquidity requirements set under the Basel III accord, which the Basel Committee for Banking Supervision concluded in December 2010. The introduction of what is known as the leverage ratio, in particular, warrants a stricter dividend and reserve policy. This ratio expresses equity as a percentage of total assets, which may not fall below 3% effective 2018. In the year under review, the Managing Board contacted the authorities and expressly objected to applying the 3% leverage ratio, given the Bank's high-quality assets. This is because the new capital requirement may result in excessive capitalisation, which is inefficient and permanently reduces shareholder returns. This could be prevented by raising the Bank's risk profile, but this is not an option, given that its strategy confines it to being a bank of and for the Dutch public sector. In the years ahead, banking supervisors will gain experience in the run-up to 2018, when the new ratio is due for introduction. NWB Bank is confident that awareness will grow that public-sector banks require a bespoke capital requirement. The authorities have meanwhile taken cognisance of the objections raised to the leverage ratio. In the years ahead, and in tandem with other public-sector banks, we will keep advocating a suitable capital requirement that does justice to the Bank's low risk profile.

In the coming years, the leeway for distributing dividend will to a large extent be determined by the introduction of the Basel III capital requirements. Against this backdrop, the Managing Board, with the approval of the Supervisory Board, decided to change the Bank's reserve policy. Effective 2011, as long as the 3% leverage ratio continues to apply unchanged, future profits will be added to the Bank's reserves to the maximum extent possible. Once the capital requirements are met, there will be scope for dividend distribution. Should the authorities decide to lower the current 3% leverage ratio requirement for NWB Bank, the reserve policy may be reconsidered.

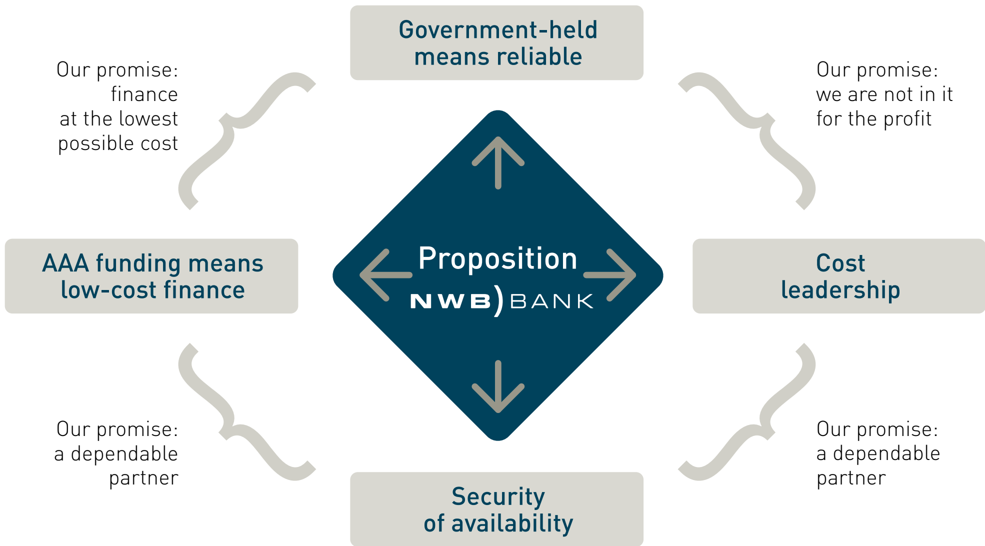
Outlook

Demand for loans in the public sector, from housing corporations in particular, is expected to show a considerable drop in 2011. Accordingly, the volume of lending by NWB Bank, one of the major players in this market, is set to fall.

The financial markets still find themselves in dire straits. The many uncertainties, including about the further direction of the crisis surrounding government debts in the euro zone, the likelihood of the western economy slipping back into another recession, and the stability of markets and financial institutions, make forecasting a complex exercise. These factors will have a major impact, notably on trends in money market and capital market rates and risk spreads. Given that this may cause NWB Bank's market value results to fluctuate sharply, we refrain from making any statements on the expected profit for the year 2011. It can be foreseen, however, that, as part of its profit for the year, the Bank's net interest income will be under pressure in 2011, chiefly because loans that had been granted prior to the credit crisis at lower risk spreads will be refinanced.

Strategy

Ever since it was incorporated in 1954, NWB Bank has operated as a bank of and for the Dutch public sector. One of the major financial service providers in the public arena, the Bank aims to provide its clients with maximum access to funding at the lowest possible cost. It can do so thanks to its efficient, high-quality and committed organisation, which has excellent sourcing positions in the international money and capital markets due to its AAA ratings. In adhering to this strategic concept, NWB Bank offers its shareholders and clients a high-quality portal to the financial markets, efficiently bundling their finance requirements. Its position as a government-held company and the restriction of its operations to the public arena, both enshrined in its Articles of Association, are fundamental preconditions for its continuing operations as a solid public-sector bank. It is this concept that previously enabled NWB Bank, during the financial crisis of 2008, to keep providing low-cost finance to its clients.



Source: RebelGroup

Developments relevant to the Bank's strategy since 2000

This century's first decade saw the environment in which NWB Bank operates undergo many drastic changes. Nevertheless, the Bank's strategy and mission remained effectively unchanged. Since 2000, its market share in total long-term loans taken out by the entire public sector tripled from 10% to 30%, with notable growth seen in the housing corporations sector. This testifies to the role NWB Bank fulfils as a public-sector bank serving the Dutch government and its institutions.

Meanwhile, internal and external changes took place that are of particular relevance to the Bank. Around the change of the century, the sourcing of long-term funds changed from being largely a domestic exercise to targeting mainly international capital market investors. To ensure this change was going to be successful, the organisation's quality was enhanced and its expertise raised. This helped NWB Bank present itself well to investors in the global market, handle foreign jurisdictions and international agreements effectively and step up its asset and liability management and interest rate risk management. To hedge against interest rate and currency risks, a swap portfolio with a total notional amount of nearly € 100 billion was created, whereas NWB Bank had virtually no swaps in its books at the start of the century.

Further developments pertinent to NWB Bank were the introduction of the new International Financial Reporting Standards and the fact that the Bank became liable to corporate income tax, both in 2005, as well as the € 250 million capital payment made to shareholders in 2007.

Furthermore, a great deal of effort was put into activities in such areas as corporate governance, sustainability and corporate social responsibility. Following on from this, NWB Fonds was founded in 2006. The Bank has gradually increased its capital, which now stands at € 20 million.

The more stringent capital and liquidity requirements imposed on the Bank in the wake of the credit crisis greatly impact its policies. As explained above, a number of requirements laid down in the Basel III accord are inappropriate for public-sector banks with low risk profiles, such as NWB Bank. We will keep advocating more suitable terms, while considering how the Bank may respond to the changing rules in the best possible way.

In 2008, the Dutch government studied the options for having lower-tier governments conduct their banking transactions with the State of the Netherlands. Under this concept of treasury banking (schatkistbankieren), municipal and provincial authorities and water boards would both raise and grant their loans through the central government. Given its specific role as a bank of and for the public sector and the specific benefits this offers society, NWB Bank emphatically advised the government not to introduce this concept. Our advice received unanimous support from the Association of Netherlands Municipalities, the Dutch Association of Water Boards and the Interprovincial Forum, as well as from the housing corporations umbrella organisation Aedes. The government decided not to introduce treasury banking for the moment. While remaining firmly convinced that the Dutch capital market is excellently organised and operates at its maximum efficiency thanks to both public-sector banks, we obviously remain alert to opportunities for further improving the Bank's efficiency and the quality with which its performs its core duties.

Over the past years, lending to housing corporations became a more prominent activity, with NWB Bank's exposure in this sector having grown to around 60% of its total lending. Our role as a faithful provider of finance to these institutions commenced in the seventies of the previous century. It is a well-known fact that life in the world of housing corporations is eventful strategically. Government policies and European rules on permitted state aid have a major impact on housing corporations' financial positions, working methods and business models. Especially, allocating and unbundling social and commercial operations represent one of today's major priorities. In addition, housing corporations also feel the impact of the credit crisis and the economic recession.

Particularly in view of these developments, it is imperative that NWB Bank remains closely involved in the housing corporations' financial ups and downs. For this reason, we performed a study last year, assisted by an external agency, into the Bank's strategic positioning towards the housing corporations. Its outcome was one of the elements demonstrating that NWB Bank's strategic perspective as a provider of risk-free government-guaranteed loans is still as good as ever. At the same time, however, it would be wise to give more prominence to our involvement with housing corporations, to ensure that these important clients feel more at home at NWB Bank. As regards future non-guaranteed financing of housing corporations' commercial activities, it was concluded that this is incompatible with the model of a public-sector bank. In keeping with the Bank's strategy and Articles of Association, its playing field will remain confined to providing loans to or guaranteed by public authorities. To the Bank, this is a major precondition for keeping its AAA ratings, which also benefit the housing corporations themselves and enable them to continue financing their social operations through NWB Bank at the highest possible quality and the lowest possible cost going forward.

Other findings from the study suggest that the upscaling and professionalisation trends seen among local public authorities, housing corporations and healthcare institutions has increased the need among many clients for assistance and advice in arranging their financing. A growing focus on portfolio management and project finance, as well as the establishment of public-private financing structures will lead to more frequent client contact. In the coming years, NWB Bank will bring its organisation more into line with those trends, with account management for borrowers and product development being given top priority. In other words: "Putting the client's interests first".

Developments in 2010

Capital markets and funding

Whereas 2009 had seen spreads on debt instruments stabilise, the first government-guaranteed loan redemptions by banks obstructed a further narrowing of spreads in 2010. This was caused by rising concerns over growing government debts and the associated issuance of government bonds, with the liquidity crisis that had hit the banking sector internationally turning into a debts crisis in the weaker euro countries. Even so, the market witnessed several supranationals issue a handful of bonds at more competitive rates in 2010.

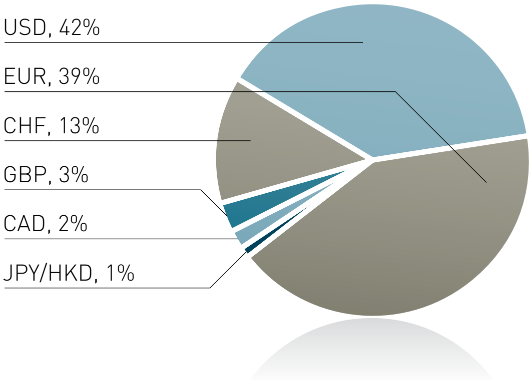
In 2010, NWB Bank raised long-term funding totalling € 9.7 billion (2009: € 7.6 billion). Whereas we had deliberately kept maturities short in 2009 because of the increased spreads, 2010 saw them lengthen to 5.8 years on average (2009: 3.4 years). Of this amount, 42% was raised in US dollars, 39% in euros, 13% in Swiss francs, 3% in British pounds and 2% in Canadian dollars, with the remainder raised in Japanese yens and Hong Kong dollars.

Five benchmark loans were issued in 2010. Two were in euros, with five and seven-year maturities, and three in US dollars, one of which has a two-year maturity, while the other two mature in five years. US dollar-denominated funding remained particularly attractive because of the favourable euro-dollar basis swap. To capitalise on this even more in the future, it was decided in 2010 to extend NWB Bank's EMTN programme by including what is known as a 144A paragraph. This enables us to sell NWB paper to US-based institutional investors as well, thereby enhancing the tradability of the Bank's dollar issues, which makes them more attractive to the market.

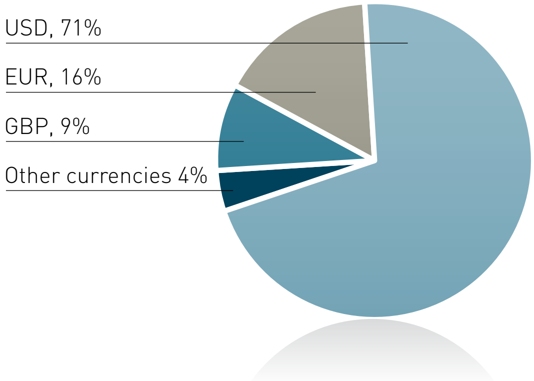
As always, the Swiss market was a very significant source of funding. Issuance to this market totalled CHF 1.8 billion over the year (approx. € 1.3 billion). Callable funding raised in 2010 totalled € 195 million, both in US dollars and Japanese yens.

Likewise, NWB Bank was a highly active issuer of commercial paper (ECP), which continues to be a very flexible way of raising large amounts of very attractively priced funds in the money market. It enables us to time the issuance of our long-term debt instruments exactly to the minute. In 2010, we issued € 27.0 billion under the ECP programme, with maturities averaging four months. Of this amount, 71% was in US dollars, 16% in euros, 9% in British pounds and 4% in other currencies.

Long-term funding broken down by currency



Commercial paper broken down by currency



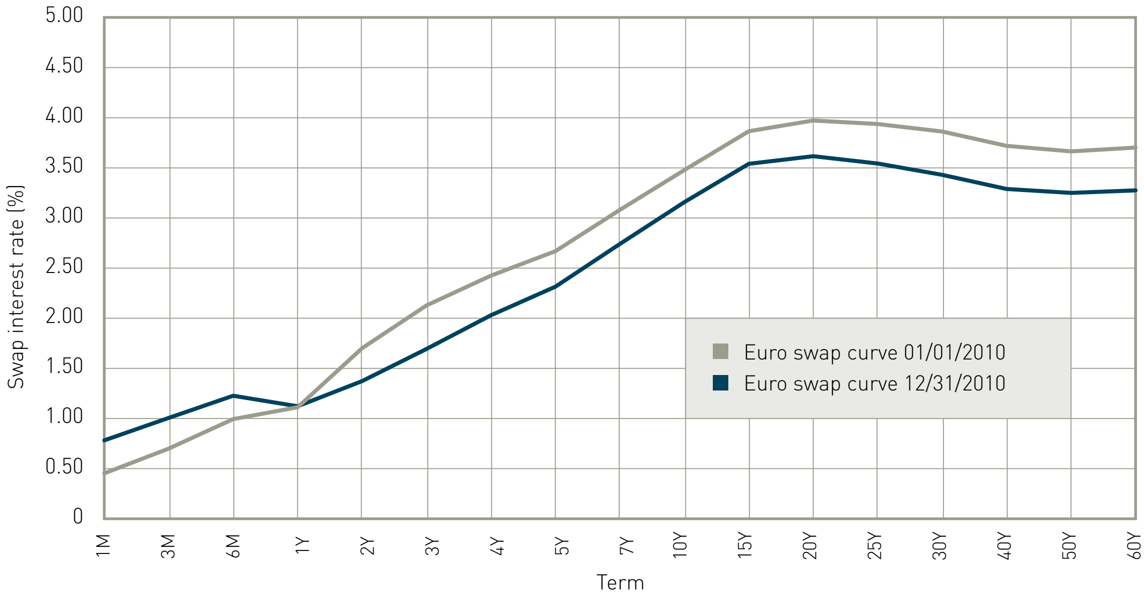
Lending

In spite of deferred investments, the sectors NWB Bank serves continued to experience substantial financing requirements in 2010. At € 7 billion, the volume of our long-term lending matched the record levels achieved in 2007 and 2008, once more making a compelling case for NWB Bank's role as a provider of finance to the public sector.

The level of, and movements in, the yield curve influence the funding decisions that NWB Bank's clients make. Amidst financial turmoil, this curve underwent significant changes in 2010.

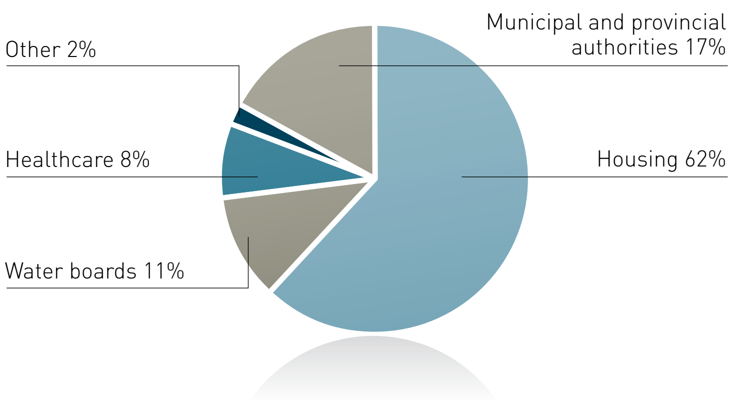
The graph below shows the swap curves on 1 January and 31 December 2010, illustrating clearly that money market rates went up markedly, whereas capital market rates, in the longer maturity segment in particular, fell by around 50 basis points. The graph shows the swap rates without the liquidity spreads that apply to loans.

The spreads covering credit risks, which the Bank faces when raising loans, increase in step with a loan's maturity. Accordingly, credit spreads on long-term loans are significantly higher than those on shorter-maturity loans. This means high spreads eliminate part of the benefit low long-term interest rates offer. Awaiting better times, we have mitigated the ramifications of this liquidity spread for our clients by offering them loans whose spreads will be reset in the near future.



NWB Bank´s market shares in the various sectors it serves held up well at high levels. On a cash flow basis, the long-term lending portfolio grew to € 43.2 billion at year-end 2010 (year-end 2009: € 40.2 billion). The chart illustrates the portfolio's breakdown by sector.

Portfolio broken down by sector



Social housing

The economic crisis did not fail to leave its mark on the social housing sector. Housing corporations, under long-term agreements with municipal authorities and other parties, were under a commitment to keep investments in their working areas at substantial levels. While their capital position is generally not an impediment for making investments, with solid assets to borrowings ratios, it is in the volume of available cash flows where the shoe pinches. This is because a lack of cash flows weighs down on the borrowing capacity. Where investments cannot be fully loan-financed because cash inflows from regular operations are too low, other ways of financing must be found. Traditionally, selling part of the housing stock provided the required funds, but that assumes there are buyers. Over the past few years, however, housing corporations' sales have been disappointing, causing delays in project execution.

The European Commission's decision to further rein in state aid has led to new rules with effect from 1 January 2011. From that date onwards, more stringent requirements will apply to assets financed with government-guaranteed funds. One of those requirements stipulates that at least 90% of newly built homes must be offered to a pre-defined target group, a condition that does not, however, apply to loans contracted prior to 2011. In preparation for this, many housing corporations took out loans in 2010 that are made payable in the future. Consequently, the WSW guarantee fund guaranteed € 15.3 billion in loans, which is an all-time high. The total amount NWB Bank had outstanding to the social housing sector at year-end 2010 was € 26.8 billion, representing over 62% of its total lending portfolio and reflecting an increase of more than € 2.7 billion on 2009.

Healthcare institutions

Loans to the healthcare sector take the form of project finance more frequently than those to the housing corporations sector. Typically, they are not refinanced as they are usually repaid on a straight-line basis. Clearly, the availability of long-term loans, with flexible pre-financing until they are made payable, is perceived as a valuable enabling tool in the healthcare sector. It prevents an organisation from facing cash surpluses as a result of taking out a loan too soon, while hedging against the interest rate risk right from the start. The sector has seen demand for "basisrentelening" loans grow. Also, healthcare institutions increasingly use absolute interest rates as their benchmark, rather than referring to the difference between borrowing rates and the NZA (Dutch Healthcare Authority) standard rates. During the period under review, loans worth € 410 million were contracted with healthcare institutions. At year-end 2010, the total balance outstanding to the sector was € 3.4 billion.

Water boards

Again, NWB Bank provided the lion's share of all loans water boards took out in 2010. Lending to the sector was € 479 million in 2010 (2009: € 442 million). Investments levels were similar to those in 2009. Besides taking out traditional loans with straight-line or fixed term, water boards also applied for "basisrentelening" loans. At € 4.7 billion, the volume of lending outstanding to the water boards sector represented nearly 11% of our total lending portfolio at year-end 2010.

Municipal and provincial authorities

Provincial authorities are facing substantial cash surpluses, most of which were caused by the sale of their equity stakes in utility companies. Accordingly, the provincial authorities did not raise any long-term finance in 2010. Likewise, municipal authorities had held stakes and had received funds in 2009 to such an extent that they did not need to seek recourse to the capital market in 2010. Even so, NWB Bank saw the volume of loans outstanding to municipal and provincial authorities grow to € 7.2 billion. Nearly € 1 billion in new loans was provided. Given the low money market rates, many municipal authorities facing a need for finance opted to take out cash loans. Upon consolidation, the maturity opted for averaged just over a year. Often, this is motivated not only by short-term rates, but also by the land positions municipal authorities have assumed. As the housing market stagnates, these land sales often come to a halt, causing the associated cash inflows to dry up. As those positions inevitably need to be sold at some point in time, it seems logical to meet the cash requirement they cause with short-term rather than long-term funds.

Risk management

NWB Bank's most important risk categories are interest rate, liquidity and credit risks. The Bank adopts a very prudent policy towards these risks. A description of the systems used to manage the various categories of risk is contained in the "Risk management" section of the financial statements. The Managing Board believes that the internal risk management systems and risk controls are adequate and effective.

In conformity with the Dutch Banking Code, which took effect on 1 January 2010, the Bank's risk appetite was formulated under the Managing Board's responsibility and approved by the Supervisory Board. The degree and areas of risk NWB Bank is prepared to accept in realising its strategic objectives were documented. The risk appetite will be reviewed annually and whenever significant events warrant such a review.

In compliance with the Dutch Banking Code, the product approval process was tightened in 2010. This process is followed whenever new products are launched, new markets are entered or new services are offered. It involves a widely-scoped review of transparency and risk management. Where the launch of a new product or service or the entry of a new market has a substantial impact on the Bank's risk profile or strategy, approval from the Supervisory Board is required.

NWB Bank's borrowers are mainly public authorities and institutions to which funds are lent under the guarantee of public authorities. In addition, the Bank holds a small securities portfolio comprising mainly government or government-guaranteed bonds. Throughout 2010 and indeed throughout its history, NWB Bank has never suffered a loan loss. The credit risk management policy was updated in the year under review, bringing it into line with trends in sectors the Bank serves and focusing more on significant risks.

Transactions the Bank enters into with financial counterparties, such as interest rate and currency swaps and money market issues, give rise to counterparty risks. These are confined by imposing limits and using a framework of standard requirements, as well as by concluding risk-mitigating netting and collateral agreements with financial counterparties. In 2010, the number of counterparties with which collateral was exchanged grew strongly and collateral management was stepped up.

Following the drop in long-term interest rates in the early months of 2010, the duration of the fair value of equity was reduced in phases. In addition, supplementary standards were introduced in the second quarter of 2010 to improve the management of interest rate risk in the fair value portfolio. They are based on partial duration, which is a measure of the fair value's sensitivity to non-parallel changes in the yield curve.

Our long-term liquidity position is assessed on the basis of the standard for the funding requirement at any point in the future, which was introduced in 2008. In 2010, in order to be able to meet this new standard within the set transitional period applying through 2013, the Bank raised additional long-term funding.

Solvency

In 2010, NWB Bank complied with all the capital requirements imposed internally and by supervisory authorities. At year-end 2010, the solvency ratio under the Basel II supervisory regime was 94.5% (year-end 2009: 51.4%). The sharp increase in this ratio was caused mainly by a further tightening of the Bank's counterparty credit risk management and a modification of the calculation method. NWB Bank's aims to maintain its AAA status. Rating agencies Moody's and Standard & Poor's confirmed our AAA ratings in their annual assessments. As in previous years, the highest possible ratings were based, among other factors, on the Bank's robust financial position, the quality and commitment of its shareholders and the reliability of its borrowers.

HR policy

NWB Bank enables its employees to the extent possible to develop themselves across the full spectrum and gain an understanding of the banking profession. In so doing, it seeks to strike a balance between the organisation's interests and those of individual employees, given their personal circumstances.

The workforce grew to 41 (36.5 FTEs) in 2010, including the two members of the Managing Board. 24 are male and 17 female.

As early as in 2008, a process of change was initiated in response to the hugely increased dynamics in the banking business, as well as the ever tighter requirements imposed on banks. Attention was likewise devoted to cultural change, focusing on assuming personal responsibility and sharing knowledge.

Another topical activity is increasing awareness throughout our organisation in the area of corporate governance (including the Banking Code), risk management, and compliance and integrity. Integrity takes pride of place at NWB Bank. In November 2010, the code of conduct for employees was updated. Among its provisions are rules on compliance with laws and regulations and the Banking Code, preventing a mix of business and personal interests, and handling information (confidentiality). The code also includes the moral and ethical conduct declaration for bank employees and was signed by all employees individually. In the autumn of 2010, all employees attended compliance sessions, which focused on acting carefully and with integrity.

Before hiring new employees, NWB Bank uses pre-employment screening relating to education, previous employers, references and a certificate of good conduct.

In 2010, the Performance Management System was extended to include the organisation's core competencies, such as communication and collaborative skills and situational awareness. The management of these competencies allows employees to receive feedback on desired conduct and culture. In the spring of 2010, a start was made on the refurbishment of the Bank's office building on Rooseveltplantsoen in The Hague. Its new layout does full justice to the open culture and dynamic workplace the Bank offers. All employees will be able to start using their new workplace early in 2011.

Employees

Many employees had to put in extra efforts to work on subjects and projects in various areas on top of their normal duties in 2010. This resulted in high workloads under working conditions that were dominated, almost throughout the year, by the drastic refurbishment of our office building's interior. Business continued as usual in improvised workplaces during the construction work. The Managing Board wishes to express its gratitude to all employees for their extra efforts under these circumstances.

Aedes Chair Marc Calon

on culture change at housing corporations

"If you want to promote good conduct, you mustn't be afraid"

Marc Calon has been Chair of Aedes, the umbrella organisation of housing corporations, since 2009. Before that, between 1999 and 2009, he served on the Provincial Executive for Groningen. The Aedes members are responsible for offering proper housing to around 2.4 million households. As a sector association, Aedes works hard to ensure good governance. According to Calon, that is one reason why the image of the housing corporation sector has improved.

"There is no such thing as 'the' housing corporation. Some housing corporations have 200 lettable units, while others have 80,000. Their origins - for example Catholic, Protestant or socialist – vary, as do their professional and geographic areas of operation: differences between cities and rural areas and between regions of growth and regions of decline. So it is wrong to talk about housing corporations as if they were a single entity."

"The Board of Aedes consists of twelve directors from a range of different housing corporations, and is led by an independent Chair. We are monitored by our members, the housing corporations, totalling around 400 in number, that review Aedes' working methods twice yearly at a conference. Everything is about input from our members and, by extension, from our tenants. They are in control. If we did not provide any added value, Aedes would have no reason to exist."

"Our approach has undergone great changes in recent years. That was necessary, since people had an indifferent view of Aedes. We took that seriously, and accepted the responsibility. Aedes set out with a new vision and a new Board. Governance was a vital factor in that process. Aedes encouraged its members to call each other to task about claims of misconduct and report such claims to the Aedes Code Committee. A clear focus

on ethical conduct should be in your bones, not just in a protocol. From a somewhat introverted organisation, we changed into a club that deals with the outside world, is approachable and communicates clearly."

"In terms of governance, we work with an Aedes Code. One of its elements is mandatory inspection for housing corporations. Any housing corporation that does not wish to cooperate can no longer be affiliated with Aedes. If you do not enforce that rule, you lose credibility. If you want to promote good conduct, you mustn't be afraid and you cannot offer any escape clauses. It is the only way to turn Aedes into a widely recognised quality mark. For good governance, we as the Board of Aedes naturally look for supporters, but we don't wait for the slowest members."

"One of the results of our new approach was an improved relationship with the political arena in The Hague. In the past, that relationship was mostly dominated by conflict. That is not always wise, because - one way or another - both parties have to work together. We are also focusing more on our members' wishes. It's not as if the Board of Aedes always knows better than the directors of the housing corporations. Our job is to offer support, and we do so in physical and virtual form, using such methods as feedback groups. Another important element is that Aedes does not do everything by itself, but prefers to work with partners such as tenants' association De Woonbond or – for European matters – the Association of Netherlands Municipalities."

"Years ago there was a great deal of commotion about excess in our sector, mainly about salaries. Aedes opted for a change in culture. We felt that excessive remunerations should be a thing of the past. That's why Aedes, working together with the Organisation of Housing Corporation Supervisors and the Dutch Association of Directors of Housing Corporations, has put forward proposals for a new remuneration code. I hope that that code is soon given universally binding status."

"During the coming years, the housing corporations will place increasing emphasis on their core responsibility: to offer proper housing and a safe living environment for less affluent people. They are enterprises that serve a social function. The government should not burden them with detailed regulations that interfere with those entrepreneurial duties. Give them room to act within clearly defined limits and let them do their job. Good governance reduces the risk of mistakes. And if something were to go wrong anyway, the supervisory Housing Authority will make sure that nobody has a chance of getting away with misconduct."

Corporate Governance

Introduction

Good corporate governance means that the interests of all those involved in a company (its stakeholders) are served well. Other important aspects of good governance are solidity and transparency. NWB Bank's stakeholders are its clients, investors, shareholders and employees. As a bank for the public sector, NWB Bank has a special responsibility towards society, which includes applying the Dutch Corporate Governance Code and the Banking Code.

The Supervisory Board and the Managing Board bear responsibility for the Bank's good corporate governance structure.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code was prepared by the Tabaksblat Committee in 2003. It applies to Dutch listed companies. Although not a listed company itself, NWB Bank applies the Code's principles and best practice provisions on a voluntary basis, taking account of its own specific features. NWB Bank is not a company with statutory two-tier board status *(structuurvennootschap)*, while its shares may only be held by the State of the Netherlands, water boards and other legal entities governed by public law and cannot be traded on a regulated market. The principles and best practice provisions that do not apply to the Bank because of its nature are those that relate to employee share and option plans, a one-tier board structure, the issuance of depositary receipts for shares, and institutional investors.

Furthermore, NWB Bank did not formulate an outline policy on bilateral contacts with shareholders as prescribed by one of the Code's best practice provisions. As all of NWB Bank's shares are registered, it keeps a shareholders' register, stating names and address details of the shareholders, as well as the dates on which they acquired their shares and the amounts they paid up on them. Throughout the year, the Bank maintains direct, informal contacts with its shareholders or their representatives, choosing not to formalise its policies in this regard.

Banking Code

The Dutch Banking Code took effect on 1 January 2010. The Board of the Dutch Banking Association adopted the Banking Code in response to a report entitled 'Restoring Trust' *(Naar herstel van vertrouwen)* published by the Advisory Committee on the Future of Banks (Maas Committee). The Code sets out principles with respect to the Supervisory Board, the Managing Board, risk management, audit and remuneration policy. The independent Banking Code Monitoring Committee monitors compliance.

Comply or explain statement

NWB Bank fully acknowledges the significance of the Banking Code and will comply with its provisions in full, subject to one exception. In 2010, it has taken steps in a number of areas towards full implementation. The exception concerns the performance criteria used in the 7% bonus plan for the Bank's employees. More details are provided in the "Remuneration policy" section on page 35.

Putting the client's interests first

NWB Bank is a major player in financial service provision. It can fulfil its duties well only if society, and its clients in particular, are confident about the organisation and the integrity of the Bank's dealings with its clients. Accordingly, integrity, reliability and social responsibility are NWB Bank's core values. Employees are expected to promote these core values in carrying out their duties. The Bank's code of conduct was revised in 2010 and defines these core values. It also states that employees must exercise due care in their dealings with clients and take their clients' interests into account to the best of their ability. After all, it is they who provide clients with the information needed to make a careful decision about entering into a transaction.

Product approval process

As mentioned in the "Risk management" section, NWB Bank tightened its product approval process in compliance with the Dutch Banking Code. Whenever new products are launched, new markets are entered or new services are offered, the Treasury, Risk Management, Legal Affairs, Accounting and Reporting, and IT Departments are involved in the process. Whenever there is a substantial impact on the Bank's risk profile or strategy, the Supervisory Board's approval is required.

Risk appetite

NWB Bank has documented its risk appetite, describing the degree and areas of risk it is prepared to accept in its business operations. The description of the Bank's risk appetite concentrates on its strategy, its objectives and the way it can achieve those objectives. Establishing the risk appetite both by category and overall and reporting on those risks enables the Bank to always take its day-to-day decisions within the parameters set. The risk categories of relevance to NWB Bank are described in more detail in the "Risk management" section on page 103 of this Annual Report.

The product approval process and the risk appetite form part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP). Each year, the Internal Audit Department assesses the ICAAP's effectiveness and reports its findings to the Managing Board and the Audit and Risk Committee.

Audit and Risk Committee

NWB Bank has assigned the duties of the Supervisory Board's risk committee to the Audit Committee, renaming it Audit and Risk Committee. The Committee plays an important part in such activities as testing the Bank's operations, capital allocation and liquidity requirement against its risk appetite.

Lifelong learning

Programmes of lifelong learning for the members of the Supervisory and Managing Boards were introduced in October 2009, with the aim of maintaining the expertise in relevant areas generally, and of trends at NWB Bank particularly, at the required standard and expanding their expertise where needed. External parties and employees held various presentations on a range of subjects following regular Supervisory Board meetings.

Furthermore, Board members may attend external training courses, both as a group and individually, depending on their own expertise and experience. For example, a number of Board members attended the Course for CFOs and Supervisory Directors *(Leergang voor CFO's en Commissarissen)* of the Deloitte Academy Executive Program. In addition, the members of the Managing Board attended various national and international conferences and seminars dealing with such topics as the financial markets, IFRS, disclosure, regulation, ALM and public treasury.

Each new supervisory director must follow an induction programme addressing, as a minimum, general financial, social and legal matters, financial reporting, the specific features of NWB Bank and its business operations, and the responsibilities of a supervisory director.

Each year, the effectiveness of the lifelong learning programmes for both Boards is assessed.

Moral and ethical conduct declaration embedded

Both members of NWB Bank's Managing Board signed the following moral and ethical conduct declaration:

> "I declare that I will perform my duties as a banker with integrity and care. I will carefully consider all the interests involved in the Bank, i.e. those of the clients, the investors, the shareholders, the employees and the society in which the Bank operates. I will give paramount importance to the client's interests and inform the client to the best of my ability. I will comply with the laws, regulations and codes of conduct applicable to me as a banker. I will observe secrecy in respect of matters entrusted to me. I will not abuse my banking knowledge. I will act in an open and assessable manner and I know my responsibility towards society. I will endeavour to maintain and promote confidence in the banking sector. In this way, I will uphold the reputation of the banking profession."

The principles set out in this declaration were laid down in more detail in the new code of conduct for the Bank's employees, which was adopted in late 2010. The code was signed by all employees and posted on the Bank's corporate website, www.nwbbank.com. The code is specifically brought to the attention of each new employee upon commencement of their employment, given that their employment contracts refer to it.

All employees attended integrity workshops in 2010, during which various compliance and integrity issues relating to the Bank were discussed in order to raise the participants' compliance awareness.

Remuneration policy

The remuneration policy with respect to the Board members satisfies the provisions of the Banking Code. The Supervisory Board's Remuneration and Appointment Committee verifies this on a regular basis.

Likewise, the remuneration policy with respect to the employees is in line with the Code's principles. Employees' variable remuneration comprises a profit-sharing payment of up to 7.5% and a bonus of up to 7% of their fixed annual salary. The profit sharing plan stipulates that NWB Bank's profit is the factor determining the profit-sharing payment. Under the employee bonus plan, a bonus of up to 7% is granted in reward of special achievements made in the relevant year. Managers submit well-founded proposals to the Managing Board with regard to the percentage of the bonus payment – between 0% and 7% - to be granted to each employee. In proposing a percentage, achievement of individual targets set annually is considered. Although the Bank has carefully designed the procedure for granting bonuses to its employees, it does not satisfy Provision 6.4.3 of the Banking Code in full. This provision prescribes that pre-determined and assessable performance criteria be used.

Other subjects meriting attention pursuant to the Dutch Corporate Governance Code and the Banking Code

General Meetings of Shareholders

The shareholders are convened by the Managing Board or Supervisory Board by written notice stating the subjects to be discussed. Shareholders representing at least 1% of the issued share capital may submit additional agenda items in writing, which will be placed on the Meeting's agenda for discussion.

The General Meeting of Shareholders adopts the financial statements and endorses the conduct of affairs by the members of the Managing Board and the supervision exercised by the members of the Supervisory Board.

Shares may only be held by the State of the Netherlands and other legal entities governed by public law. Water boards currently hold 81% of the shares in NWB Bank's capital, the State of the Netherlands 17% and provincial authorities 2%.

Supervisory Board

General

The Supervisory Board's duties are to supervise the Managing Board's policies and the general course of affairs of the Bank and its business, as well as to provide advice to the Managing Board. In fulfilling its duties, the Board serves NWB Bank's interests while carefully balancing those of its stakeholders, such as its clients, investors, shareholders and employees, giving consideration to corporate social responsibility aspects that are relevant to the Bank. Risk management was given high priority on the Supervisory Board's agenda.

The Supervisory Board has drawn up regulations governing its working methods and composition. The regulations are in line with the Corporate Governance Code and the Banking Code and have been posted on the Bank's website (www.nwbbank.com).

Profile

To ensure the proper composition of the Supervisory Board of NWB Bank at all times, its members are appointed taking account of the nature of the Bank's operations and the desired expertise and background of the Supervisory Directors. They must be aware of, and capable of assessing, national and international social, economic, political and other developments that are relevant to NWB Bank. Furthermore, they must be capable of working as a team while serving on the Board. In the event of reappointment, they must have demonstrated that capability. They must refrain from promoting the interests of individuals, groups of individuals or parties involved in the Bank.

An overall profile has been drawn up, whose purpose is to provide guidance on the composition of the Supervisory Board and the appointment of its members, the aim being to achieve a diverse composition. The profile is in line with the Corporate Governance Code and the Banking Code, and it has been posted on the Bank's website (www.nwbbank.com) under About NWB and Corporate Governance. In addition, individual profiles are drawn up for each vacancy that arises on the Supervisory Board, which are in line with the overall profile.

Appointment

The General Meeting of Shareholders appoints the Supervisory Directors based on binding nominations of at least two individuals. It also decides on the number of Supervisory Directors, which must be at least seven and at most eleven, as prescribed by the Articles of Association. The shareholders have set the number of Supervisory Board members at seven. Their term of office is four years, and they may serve no more than three terms. A Supervisory Director who has reached the age of 70 cannot be reappointed and stands down at the General Meeting of Shareholders first held once four years have elapsed after his or her most recent appointment.

Other positions/conflicts of interest

The Supervisory Directors have informed the Bank of all other positions they hold. To the extent relevant to the fulfilment of their duties at the Bank, these positions are disclosed on pages 8 and 9 of this Annual Report. As in previous years, there were no conflicts of interest during the year under review.

Communication

The duties and responsibilities of the Supervisory Board, its committees and the Managing Board are wide-ranging. Accordingly, efficient, full and transparent communication is essential. To assess and support this, a structure has been put in place and approved by the Supervisory Board.

Audit and Risk Committee; Remuneration and Appointment Committee

The Supervisory Board has an Audit and Risk Committee and a Remuneration and Appointment Committee. The regulations governing both committees have been amended and posted on the Bank's website.

Secretary

The Supervisory Board is supported by the Corporate Secretary, who is accountable to the Chairman of the Managing Board and reports to both the Managing Board and the Supervisory Board.

Remuneration

The remuneration of the Supervisory Directors is set by the General Meeting of Shareholders and does not depend on the results of the Bank. Further details can be found in the financial statements.

Shareholdings

Under the Bank's Articles of Association, its shares may be held only by legal entities governed by public law. NWB Bank's Insider Regulation prohibits Supervisory and Managing Board members, as well as employees, from making private investments in the Bank's securities. The Bank does not operate any share ownership or share option plans for members of the Supervisory Board or the Managing Board.

Managing Board

Appointment

The Bank is managed by a Managing Board which, in accordance with the Dutch Financial Supervision Act, should be comprised of at least two members. Managing Directors are appointed by the General Meeting of Shareholders for a term of four years on nominations by the Supervisory Board. The Managing Board currently consists of two members, one of whom has been appointed Chairman. Responsibilities for risk management and commercial duties have been segregated.

Regulations

The working methods of the Managing Board have been laid down in regulations, which have been posted on the Bank's website (www.nwbbank.com). The regulations are in line with both Codes.

Conflicts of interest

Where Managing Directors hold other positions or carry out transactions, conflicts of interest may arise. The Supervisory Board has been informed of all other positions held by Managing Directors. No specific approval was required for any of these positions and they do not involve any conflicts of interest. As in previous years, no transactions took place during the year under review that could involve a conflict of interests.

Composition
In 2010, the composition of the Managing Board and the management structure were unchanged.

Remuneration policy
The remuneration policies with respect to both the Managing Board and the Bank's employees are in line with the principles of the Dutch Corporate Governance Code and the Banking Code. They are assessed together with the Supervisory Board's Remuneration and Appointment Committee, on a regular basis. For further information about the remuneration policy, please refer to the Remuneration Report on page 55 of this Annual Report.

Audit
The Internal Audit Department ("IAD") operates independently within the Bank. It carefully, expertly and objectively audits and tests how the Bank controls risks associated with its business operations and other activities. In the year under review, the Bank's internal risk controls were effective. These risk controls provide reasonable assurance that NWB Bank's financial reporting contains no material misstatements.

The Head of the Internal Audit Department reports to the Chairman of the Managing Board as well as to the Chairman of the Audit and Risk Committee. Both the Head of the Department and the external auditor attend the meetings of the Audit and Risk Committee. Effective 2010, meetings are held with the internal auditor, the external auditor and the authority exercising prudential supervision, i.e. De Nederlandsche Bank. During these meetings, views are exchanged about the Bank's risk profile and its planned operations. NWB Bank's Risk Management Department is also represented in these meetings.

Compliance
The compliance role was designed to promote and supervise, or arrange for supervision of, compliance with laws and regulations and with internal procedures and codes of conduct that are relevant to the organisation's integrity and associated reputation. NWB Bank has assigned the compliance role to its Legal Affairs Department. It oversees the Bank's primary process, which is providing loans to the public sector. The scope of its work covers the following five types of risk:

1. Risks relating to the Insider Regulation, such as with respect to private insider trading
2. Other risks relating to individual conduct, such as with respect to corporate insider trading, non-compliance with the code of conduct and complaints filed by whistleblowers
3. Risks relating to clients, such as with respect to the Dutch Money Laundering and Terrorist Financing (Prevention) Act and customer due diligence ("know your client")
4. Risks relating to financial services the Bank provides, such as with respect to sales conduct, transparency of product offerings, client interests and protection, complaints handing procedures and data protection/privacy matters
5. Risk relating to the organisation's conduct, such as cartelisation, approving new products and industry-wide standards or codes of conduct

The above implies that the scope of NWB Bank's compliance role does not extend to tax laws, insurance, financial reporting rules and standards or working conditions and environmental legislation.

Responsibility for the Insider Regulation aspect of the compliance role has been placed outside the Bank. Employees are asked each year to confirm that they complied with NWB Bank's Insider Regulation, with verification being performed by the external compliance officer. The Regulation aims to prevent insider trading.

As part of its annual audit plan, the IAD carries out compliance audits in order to establish whether the Bank complies with relevant laws and regulations and with its own rules and standards. Furthermore, the IAD performs these audits to test the effectiveness of the documented controls and their correct application throughout the organisation.

External auditor

The Bank does not award any non-audit related advisory engagements to the external auditor. Departures from this principle are possible only for pressing business reasons and must be reported to the Audit and Risk Committee.

Whistleblowing procedure

The Managing Board has introduced a whistleblowing procedure, which was approved by the Supervisory Board. It enables employees to report alleged irregularities of a general, operational or financial nature at NWB Bank, on an anonymous basis if needed, without jeopardising their legal position. The procedure has been posted on the Bank's website (www.nwbbank.com).

Other developments

Developments in the area of corporate governance succeed each other at an ever faster pace, in the national and international arenas alike. For instance, in the Netherlands, the Restrained Remuneration Policy (Financial Supervision Act) Decree took effect on 1 January 2011, as did the Policy Rule on Expertise 2011, issued by the De Nederlandsche Bank and the Netherlands Authority for the Financial Markets. Internationally, the Basel Committee on Banking Supervision issued guidance on 4 October 2010 in the form of its Principles for Enhancing Corporate Governance. Most of these developments are related to the financial crisis, stemming from the desire to prevent its causes from recurring.

Naturally, NWB Bank closely monitors these national and international developments, testing its policies where needed and ensuring compliance with laws and regulations.

Peter Glas, Chair

of the Dutch Association of Water Boards

“Governance based on clear checks and balances”

Peter Glas is the Chair of the Dutch Association of Water Boards, which represents 25 water boards. They are responsible for the management of the nation’s water defences, regional water management and wastewater treatment, and have a combined workforce of 11,000 employees. The Association’s highest body is the General Assembly, which elects the Board. Peter Glas is also water reeve of the De Dommel water board. When putting governance into practice, he attaches a great deal of importance to open communications, based on the principle of always being approachable and accountable.

“The history of the water boards covers a period of many centuries. Around 1100, the emphasis was on digging waterways for drainage. When the land started sinking and the sea level began to rise, the dikes made their appearance, followed later by the pumps, the windmills and the pumping stations. Essentially, each polder had its own water board. After the North Sea Flood of 1953, they numbered around 2,600. In the 1960s and 1970s, it became clear that the funds needed to ensure that the Netherlands remained dry and the water remained clean exceeded the financial capabilities of individual water boards. That was the start of an extensive merger process.”

“The Association is a government institution whose operations are enshrined in the Constitution and the Water Boards Act. Those acts largely determine our governance. The 25 water boards form a General Assembly that meets four times a year. Dike and water reeves and members of the executive committees elect the Association’s Board from their ranks. The members of that Board are appointed for three years, and may be reappointed once. The Association is the mouthpiece for the water boards in The Hague and Brussels, and elsewhere. We serve as the point of contact for ministers, for example, so they don’t need to contact all

25 members separately. As Chair, it is my responsibility to ensure that there is sufficient consensus and support. That can be difficult at times, and it can require a lot of effort to find a single clear-cut position that all our members can agree on."

"The water boards define the concept of governance for themselves. General supervision of the water boards' performance is the responsibility of the provincial authorities. If the provinces should ever fail in that responsibility, the powers are passed on to the national government. Proper supervision is vital, because the water boards have their own powers of taxation. Based on their projected costs, they send assessments to businesses and individuals. This means that the water boards collect money directly, and can cover themselves financially. If they neglect their responsibilities or act contrary to the law, the provincial or central authorities will intervene. It is a form of governance based on clear checks and balances."

"Elections are held for the executive committees of water boards. It is a form of functional democracy. People pay taxes directly to the water board in their area, and in return are given a degree of control, to allow them the possibility to influence policy and the way in which the funds are spent. However, the turnout for water board elections is generally low. Surveys show that most people have a positive view of water boards. Apparently, they do not feel the need to know everything about them to think them reliable. Yet that does not release us from our duty to be approachable and accountable. People who wish to know about our methods should not be discouraged, but instead should be helped."

"Because the water boards generally function properly, most people assume that everything is in order. Of course that makes me happy. However, I feel that we should keep reminding everyone that 10 million people live behind dikes, with another 6 million in higher and mostly dry areas. And if we were to do nothing, most of this country would be flooded, including the Dutch infrastructure behind the dikes, which is worth 2,000 billion euros. Our country has the world's safest delta. To be able to continue to guarantee that safety, we have to be prepared decades ahead of time. That necessity clashes with short-term political issues. That is why the water boards have their own system of control. That form of governance gives us the necessary strength and flexibility to respond to the demands of the times."

Corporate social responsibility

NWB Bank lends to public-sector institutions that serve a general public interest. Many of the institutions that NWB Bank funds make an important contribution to the quality of society and the level of healthcare and general welfare by the nature of their work and mission. Typically, NWB Bank's borrowers also pursue policies aimed at promoting sustainability. For example, in a joint effort headed by the Dutch Ministry of Infrastructure and the Environment aimed at boosting the market for sustainable products, governments use sustainable procurement criteria.

To NWB Bank, CSR means enriching its objectives as a public-sector bank with a proactive approach towards achieving beneficial effects in social, environmental and economic terms. This is what we wish to be held accountable for and enter into a dialogue with our stakeholders about. NWB Bank carries on its business on the basis of its core values, which are social responsibility, a robust financial position and efficient business operations. NWB Bank's fundamental principle is that it does not fund institutions or operations that conflict with CSR principles. Its CSR aspirations are apparent from its core duties, business operations and commitment to society. The Managing Board bears responsibility for CSR issues, with assistance being provided by the various departments and a CSR working group. The working group discusses both internal and external CSR issues and puts forward recommendations for implementing the Bank's CSR policy.

In 2009, NWB Bank made a first step in the field of CSR by detailing and raising its aspirations in this area. Among the tangible results were the introduction of initiatives in the area of sustainable procurement, offsetting carbon emissions wherever possible, and reporting at application level C of the Global Reporting Initiative (GRI). In 2010, NWB Bank stepped up its efforts by raising the level of CSR reporting to GRI level B+. Furthermore, in 2010, the Bank for the first time participated in the Transparency Benchmark of the Dutch Ministry of Economic Affairs, Agriculture and Innovation. A debate was held internally on relevant CSR performance indicators and more insight was gained into our options and aspirations. NWB Bank will document the duties and responsibilities with regard to performance indicators as part of its CSR policy in further detail.

Strategy and aspirations

In the months ahead, the Bank wishes to make further progress by further detailing and documenting its CSR policy in general, and its procurement policy in particular, and monitoring environmental and social indicators. As regards embedding CSR into its core duties, NWB Bank seeks to take a number of significant steps. We are studying the options for financing "green" projects and aspire to map the sustainability impact of our lending, as well as the sustainability criteria the brokers involved in our funding use. In 2010, NWB Bank requested its external auditor, KPMG, to conduct an external review of CSR information for the year under review. This, together with a larger number of reported performance criteria, ensures that reporting level B+ is achieved.

Published on 18 January 2011, the final scores of the Transparency Benchmark 2010 in which NWB Bank participated show that the Bank was rated 43rd among more than 450 participants. In the 'Banks and insurance companies' category, NWB Bank was rated 8th.

Management approach

NWB Bank seeks to report on its operations in a transparent manner. It bases its CSR reporting on the guidelines issued by the GRI. We selected the GRI performance indicators in the area of sustainability based on the fact that we are a relatively small office-based organisation and fulfil our duties as a services provider in the public and financial sectors. More than half of the indicators is in the 'social' and 'economic/financial' categories, which make them relevant to the Bank as a provider of financial services.

In tandem with an external party, an initial selection was made of subjects that are material to NWB Bank. The internal CSR working group discussed the indicators' materiality, after which the Managing Board and the management team made the final selection of supplementary performance indicators.

The social indicators relate to transparency in terms of staffing, absenteeism performance, training and development. The latter three are specific target areas for our HRM policy.

For NWB Bank, the economic indicators are primarily the sector-specific indicators from the GRI's Financial Services Sector Supplement. Performance relating to the economic indicators is discussed in the financial statements and the Report of the Managing Board. Although not many environmental indicators are of relevance to a small office-based organisation, a number of them, which we can directly influence, are important.

In 2010, NWB Bank added two performance indicators from the social responsibility category. They relate to organising employee integrity training and increasing our input in debates in the public and financial sectors about public policy that is relevant to NWB Bank. In addition, NWB Fonds and the prevention of corruption remain important topics. NWB Fonds is an important pillar supporting the Bank's social policy. In 2010, further improvements were made to the fund's governance structure.

Prompted in part by the introduction of the Dutch Banking Code, the product responsibility category was given more attention. In 2010, it was included, with two performance indicators, which relate to product information and a client complaints procedure (see the "Operational risk" section in the financial statements).

Our CSR report does not, or not fully, discuss a number of relevant subjects, such as governance, compliance, remuneration policy, HR policy and risk management, because they are addressed elsewhere in this Annual Report.

The table below lists the GRI performance indicators NWB Bank has selected and the codes GRI uses for them. These performance indicators are explained in more detail in the GRI table that can be found on the corporate website (www.nwbbank.com). The CSR reporting policies are discussed further below in this section.

Overview of GRI performance indicators

Social Performance: Labour practices and decent work	GRI code
Breakdown of workforce	LA1
Employee turnover	LA2
Collective bargaining agreement	LA4
Rates of absenteeism	LA7
Training per employee	LA10
Performance and career development reviews	LA12
Breakdown of employees per category	LA13
Environmental Performance	**GRI code**
Materials used by weight or volume	EN1
Direct energy consumption	EN3
Total direct greenhouse gas emissions	EN16
Initiatives to reduce greenhouse gas emissions	EN18
Total weight of waste by type and disposal method	EN22
Total environmental protection expeditures and investments	EN30
Social Performance: Society	**GRI code**
Impacts of operations on communities	SO1
Percentage of employees trained in anti-corruption policies and procedures	SO3
Actions taken in response to incidents of corruption	SO4
Public policy positions	SO5
Economic Performance / Financial Services Sector Supplement	**GRI code**
Economic value generated and distributed	EC1
Coverage of defined benefit plan obligations	EC3
Procedures for assessing and screening environmental and social risks	FS2
Client interactions regarding environmental or social opportunities and risks	FS5
Percentage of portfolio for business lines (lending and funding)	FS6
Coverage and frequency of sustainability risk audits	FS9
Policies for the fair design and sale of financial products and services	FS15
Social Performance: Product Responsibility	**GRI code**
Type of product and service information required	PR3
Substantiated complaints regarding breaches of customer privacy	PR8
Social Performance: Human Rights	**GRI code**
Human rights screening	HR1
Incidents of discrimination and actions taken	HR4

Embedding sustainability into our core duties

We consider lending to public-sector institutions and funding our operations on the international capital market our principal core duties. In the event of specific loan applications, the sustainability of our clients is considered as part of the loan review, for instance in terms of environmental risks. However, sustainability has not become a permanent criterion in our lending as yet. Criteria for exclusion will be detailed and made more specific as part of our CSR policy for 2011. We aspire to identify and monitor more closely the sustainability impact of the institutions we finance. Reviewing for CSR aspects may contribute to a low risk profile. NWB Bank responded to its clients' changing needs, among other things by amending its products and making sufficient resources available.

NWB Bank will be extending its dialogue with borrowers in 2011. An important step was made in 2010, when a study was commissioned to Rebel Group of Rotterdam into trends in the housing corporation sector. Furthermore, sustainable institutional investors express an interest in NWB Bank's own funding. They engage research agencies in the area of sustainability that use questionnaires and assessments concerning the Bank's CSR policy and its transparency.

Responsible business operations

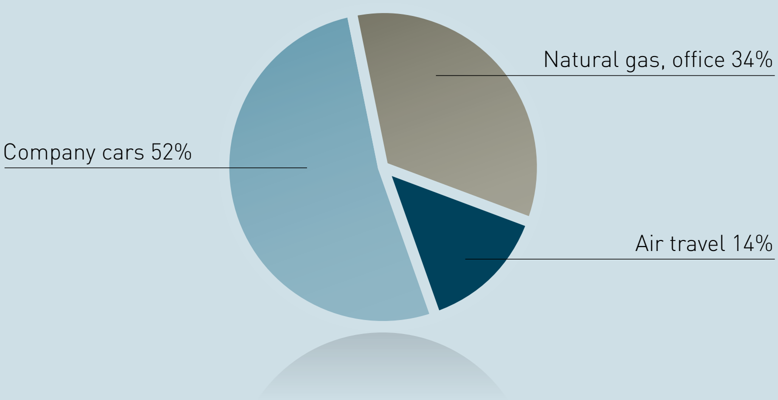
In terms of business operations, our aspirations are mainly in the areas of sustainable procurement, the environment (energy and materials) and social policies (HRM). The Bank's policy regarding the sustainability of suppliers will be detailed more specifically. We have reached clear agreements with our suppliers of gas and electricity, business travel agency and waste processor, in order to purchase products with the desired degree of sustainability. In addition, to reduce our paper use, we have increased our digitisation levels, by taking such measures as installing new multifunctional equipment. In 2011, we will ask various business contacts to supply more information in a digital format. Furthermore, we are working on introducing telework, offering employees the options of working outside the office building (e.g. at home), which allows them to manage their time more efficiently.

The environment

We used an estimated 2,350 kg of paper in 2010. The objective for 2011 is to reduce the average paper use per employee, by using our new multifunctional equipment (total investment: € 43,200). Another factor in reducing our paper use in 2011 will be the further implementation of digitisation.

A start was made with monitoring our carbon footprint in 2010, of which the office building and travel are major components. The Bank's total carbon emissions in 2010 were estimated at around 190 tonnes. The chart below shows a breakdown by category. Effective 2010, new agreements were reached with the Bank's suppliers of gas, electricity and business travel. Throughout 2010, electricity was generated from renewable sources with no direct carbon emissions. Gas consumption in 2010 was 34,501 m3, and the supplier provided a carbon offset. For the whole year 2010, carbon emissions associated with overseas air travel were offset through the Dutch Climate Neutral Group.

Carbon footprint in 2010



The carbon footprint was calculated on the basis of estimates. The calculation can be found in the GRI table on the corporate website, www.nwbbank.com.

Social policies

In 2010, the Bank's workforce (including the Managing Board) rose from 40 to 41. The table below provides a breakdown by age category. In 2010, of the 41 employees, including the Managing Board, 24 (23.79 FTEs) were male, while 17 (12.52 FTEs) were female. In 2010, our Management Team had eight members, two of whom are women. The regulations of the Managing Board state that diversity is a precondition for the proper fulfilment of the Managing Board's duties. The Managing Board comprised of two members, one of whom is a woman.

NWB Bank has a single office building in The Hague. In 2010, it was fully refurbished. Besides its high-quality design, it offers employees a large degree of personal comfort. Of all employees, over 95% hold an office position, and some 90% are covered by the currently valid collective bargaining agreement. In 2010, employee turnover continued to be low, with only one termination of employment (retirement). There were no injuries in 2010 and absence due to illness in excess of seven days was limited to 1.93%. Absence due to illness of less than seven days was 1.14%. We aim to keep the absenteeism rate at the current, low level. The 2010 rate will serve as the reference point. In 2010, the Performance Management System was introduced. The entire performance and career development cycle now applies to all employees (excluding the Managing Board). At approximately € 2,500 per employee (2009: € 1,800), training expenses were within budget for the entire organisation taken together. Practice has shown that a number of employees seek out their own training opportunities, while others discuss this as part of their goal-setting and appraisal interview. We aspire to step up our training efforts. In 2010, the HRM Department structured its processes. Lastly, the cultural change of assuming shared responsibilities was embedded further throughout the organisation.

Age category	20 t/m 30	31 t/m 40	41 t/m 50	51 t/m 60	61 t/m 70	Total
Number in 2010	2	16	18	4	1	41
Number in 2009	1	16	17	4	2	40

Dilemmas

A number of dilemmas presented themselves to NWB Bank in 2010, with a number of sustainability aspects being weighed up. These dilemmas were also debated in the internal CSR working group, and they related mainly to the Bank's business operations. Mapping sustainability in its core duties represents a significant challenge to NWB Bank, partly in view of the size of its loans portfolio. In 2010, the office building was fully refurbished, with various improvements having been made, such as sensor-operated lighting, which switches off as soon as rooms are no longer used. Had the Bank opted to have a new building constructed, however, the range of sustainability improvements would have been greater. NWB Bank did not choose to leave its current office building, based in part on its consideration of the advantages and disadvantages of a relocation. Furthermore, in terms of energy use, carbon offsetting was initially chosen. As part of our stakeholder dialogue, our CSR reports were received well. Still, more structure must be created in order to effectively incorporate stakeholder input into our CSR policy.

Commitment to society

We continue to set great store by the Bank's commitment to society, which is reflected not only in the activities pursued by NWB Fonds, but also by our project sponsorship (in the fields of water, the arts and books). In 2010, our sponsorship contributions totalled € 95,700 (2009: € 26,700). We plan to integrate trends in society that impact the Bank and its stakeholders into our CSR policy. Stakeholders may suggest these to us by using our email address, info@nwbbank.com. Lastly, NWB Bank also takes part in debates on social issues itself (see the "Stakeholder dialogue" section).

At the end of 2006, NWB Bank, in close collaboration with its shareholders and in consultation with the Dutch Association of Water Boards, set up Stichting NWB Fonds. Through 2009, the Fund had received a total of € 18 million in contributions from the Bank, from which it supports projects of a non-commercial nature in the field of water management. In 2010, NWB Bank made another contribution, of € 2 million (2009: € 4 million). NWB Fonds focuses in particular on improving local management and control of the world's water systems. The Fund also contributes to projects aimed at protecting against flooding and sound waste water management. To this end, NWB Fonds provides financial support to water boards and public institutions that devote themselves to international partnership projects. In 2007, NWB Fonds granted its first project subsidies, and eight projects are now underway in such countries as Nicaragua, Romania, Senegal, Slovakia and Surinam. Two of these projects focus on achieving the millennium goals, with much of the emphasis being on access to water and sanitation. The other projects concentrate chiefly on the transfer of knowledge of various aspects of the Dutch model of water management that show promise for application in the countries concerned. In 2008, with funding from NWB Fonds, three exciting activities were organised as part of the International Year of Sanitation. In 2009, the total number of supported projects came to 19. For developments in 2010, reference is made to the interview held with Mr Loijenga and Mr Langeveld of NWB Fonds, on page 52 of this Annual Report. More information can be found on the fund's website, www.nwbfonds.nl.

Another aspect concerning our commitment to society is preventing corruption. NWB Bank has implemented various preventive measures, the most important of which are pre-employment screening, the Insider Regulation and the code of conduct. The new code of conduct was signed by all employees in 2010 and forms part of their employment contracts. In compliance with the Banking Code, the members of the Managing Board each signed a moral and ethical conduct declaration (see the "Corporate governance" section). The code of conduct for the Bank's employees was brought into line with this declaration. The new code was one of the reasons for organising a series of integrity workshops for employees in 2010, in tandem with Deloitte.

CSR reporting policies

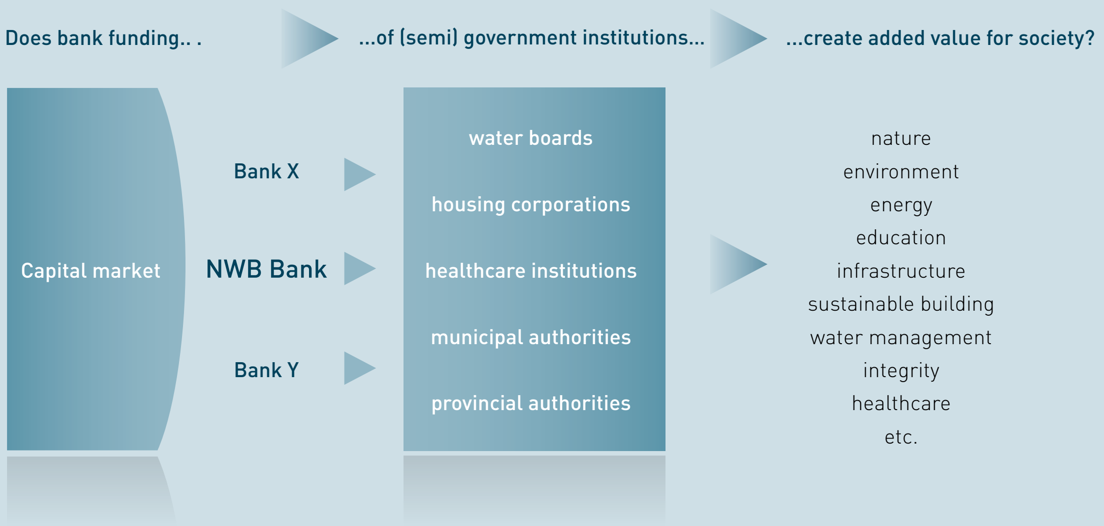
NWB Bank's disclosure policy is geared towards reporting on its operations in a transparent manner. In reporting on our CSR policy, we use the GRI guidelines (which can be found on www.globalreporting.org), specifically, the GRI's G3 guidelines. We are of the opinion that we report at GRI application level B+. The section on corporate social responsibility was externally assured by KPMG. For a full overview of relevant content criteria and performance indicators, reference is made to the GRI table that can be found on the corporate website, www.nwbbank.com. In this Annual Report, we apply the GRI Guidelines for Sustainability Reporting, as well as the GRI's Financial Services Sector Supplement, where possible. Our choice for GRI is motivated by the fact that we wish to achieve good international comparability with other institutions, such as various other banks and other Dutch state-held enterprises.

In determining the contents of the report, NWB Bank's Managing Board identified three core areas of attention in the field of CSR. They are social aspects, environmental aspects and economic aspects. Part of their identification resulted from a dialogue with the Bank's stakeholders. It was established that stakeholders represent a significant target group for this Annual Report.

Supply chain responsibility

NWB Bank considers supply chain responsibility a fundamental principle in shaping the sustainability ambitions with respect to its core duties. In the area of lending, the sustainability impact will be identified in more detail. In 2010, for specific loan applications, additional emphasis was put on environmental and other risks. During meetings with clients, product responsibility is considered, e.g. by providing an information leaflet for a specific loan. With respect to the funding NWB Bank raises in the international capital markets, we are studying options for mapping the sustainability criteria used by brokers and, where possible, increasing the sustainability impact. In the end, the sustainability impact will be measured by the added value to society that can be identified, in which the dialogue in the supply chain is also an important factor.

NWB Bank's role in society



Stakeholder dialogue

NWB Bank contacts its stakeholders on a regular basis. In a CSR context, it qualifies shareholders, customers, investors, employees, the government and supervisory authorities as its stakeholders. Contacts are periodic, but sometimes prompted by specific events. Throughout the year, the Managing Board visits investors to explain half-year and annual figures and other trends. Once a year, it convenes a General Meeting of Shareholders. During the Meeting, the Managing Board renders account of objectives, corporate strategy, policy and financial results. Several times during the year, consultative meetings are held with the supervisory authority (De Nederlandsche Bank) on such subjects as risk management, compliance and integrity. NWB Bank aspires, among other things, to lend more structure to its stakeholder dialogue. In addition, we participate in various regular meetings with ministries (including the Fido meetings), of the Dutch Banking Association, (NVB), and of the European Association of Public Banks (EAPB). In addition, trends in society that impact NWB Bank and its stakeholders may be integrated into its CSR policy. Their response to last year's Annual Report, mostly voiced during the General Meeting of Shareholders, was considered in preparing this year's Report. The Bank's CSR policy was also a discussion item in the Meeting.

Independent assurance report

To the readers of the 2010 Annual Report of the Nederlandse Waterschapsbank N.V.

We were engaged by the Managing Board of the Nederlandse Waterschapsbank N.V. ('NWB Bank') to provide assurance on the information in the chapter 'Corporate Social Responsibility' ('The CSR Chapter'). The CSR Chapter, including the identification of material issues, is the responsibility of the company's management. Our responsibility is to issue an assurance report on The CSR Chapter.

What was included in the scope of our assurance engagement?

Our engagement was designed to provide the readers of The CSR Chapter with limited assurance on whether the information in The CSR Chapter, in all material respects, is fairly presented. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance. We do not provide any assurance on the achievability of the targets, expectations and ambitions of the NWB Bank.

Which reporting criteria the NWB Bank use?

NWB Bank applies the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative (GRI) for The CSR Chapter as detailed in paragraph 'CSR reporting policies' of The CSR Chapter. The information in The CSR Chapter should be read in conjunction with this explanatory information.

Which assurance standard did we use?

We carried out our engagement in accordance with Standard 3410N 'Assurance engagements relating to sustainability reports' of the Royal Netherlands Institute of Register Accountants. This Standard requires, amongst others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand and review the information in The CSR Chapter, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants, including independence.

What did we do to reach our conclusions?

Our work included the following activities:

- A media analysis and internet search on sustainability issues for the NWB Bank in the reporting period, in order to deepen our insight in relevant sustainability issues and questions in the reporting period.
- Interviews with members of the CSR working group responsible for providing the information in The CSR Chapter.
- A review of design of the systems and processes for information collection and processing, including the aggregation of the data for information in The CSR Chapter.
- A review of internal and external documentation, based on sampling, to determine whether the information in The CSR Chapter is supported by sufficient evidence.
- Checking the consistency of other reported information with external information such as the Annual Report 2010.

During the assurance process we discussed necessary changes in The CSR Chapter with the NWB Bank and reviewed the final version of The CSR Chapter to ensure that it reflects our findings.

What is our conclusion?

Based on our work, as described above, nothing has come to our attention to indicate that The CSR Chapter is not fairly presented, in all material respects, in accordance with the G3 Guidelines of the Global Reporting Initiative.

Amstelveen, 23 March 2011

KPMG Sustainability
W.J. Bartels RA (partner)

Henk J. Loijenga, director of NWB Fonds

Paul Langeveld, programme manager

In 2006, NWB Bank co-founded NWB Fonds with the water boards. This was its own act of corporate social responsibility as well as a means of offering the water boards a financial resource when entering the global societal playing field. NWB Fonds currently has a capital of € 20 million, and NWB Bank will add another € 5 million during the coming years.

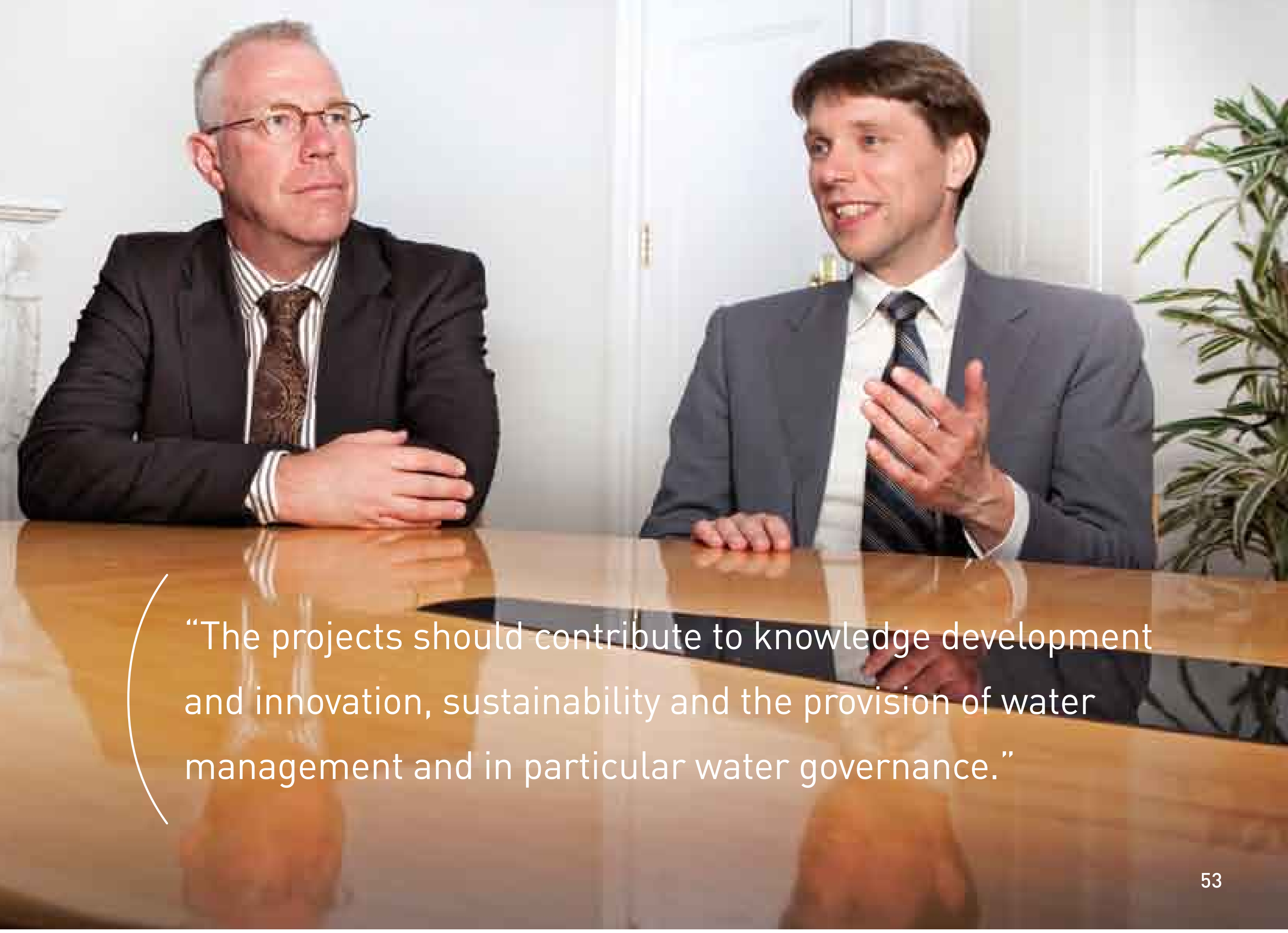
NWB Fonds uses its interest income to provide grants to water boards for partnership activities with public institutions abroad and for related research and publications. The goal is to help improve the decentralised management and administration of water systems, flood protections and wastewater treatment.

Historically, the water boards were a form of cooperation between the residents of an area. The residents determined the borders, duties and playing field of their water board. The Crown gave the water board governmental authority. Today, the water boards are still executive government bodies. Their borders are now determined by higher government and their core duties are defined by law. The playing field for the water boards' core duties is determined more and more by international developments. Water boards work together with similar institutions abroad in cross-border basins. European Union legislation and policies affect them directly, and the water boards, as globally recognised water governments, are increasingly called to action in other countries on United Nations matters.

Beyond this more or less obligatory international playing field, too, a global water reality exists in which the water boards' core duties can provide added value: particularly in Africa, but also in parts of Asia and some Central and South American countries. Cooperation leads to development. The water boards' history is proof of this.

The Netherlands is known abroad as a water nation, with a wealth of knowledge of and experience with comprehensive water management, water technology, planning and execution. The administrative strength of the water board model attracts interest from all over the world, as a source of inspiration for local and regional economic and other development. As a result, in these times of climate change and globalisation, foreign demand for the water boards' expertise is rising. Since the turn of the millennium, the water boards have adopted an increasingly active approach to their global social responsibility, purposefully and deliberately pushing back the limits of the playing field of their core duties.

At the same time, by entering into international partnerships, the water boards are helping reinforce the position of the Dutch water sector worldwide, together with knowledge institutions, social organisations and the business sector. Conversely, international cooperation reinforces knowledge development and innovation in the Dutch water sector. Many rich countries attribute their progress in terms



"The projects should contribute to knowledge development and innovation, sustainability and the provision of water management and in particular water governance."

of knowledge and innovation in part to their presence in developing and transition countries.

Regardless, however, on balance development cooperation will always involve giving more than we receive. In their relief work abroad, the water boards can request assistance from NWB Fonds. They receive compensation for hotel and travelling expenses and for their costs of research and publication. Employee costs largely remain for the expense of the water boards and their foreign partners.

Over the course of four years, some ten water boards and the Dutch Association of Water Boards have set up 31 international cooperation projects with the aid of NWB Fonds, of which 19 have been completed and 12 are still underway. In total, they involve a sum of more than €1.5 million in grants from NWB Fonds.

The board of NWB Fonds intends to increase the focus of its policy for grants. The visible needs of the foreign partner organisation should become more leading, while the primary concern should be to promote self-reliance of the populace. In substantive terms, the projects should contribute to knowledge development and innovation, sustainability and the provision of water management and in particular water governance. To create synergy, the water boards should increase their level of cooperation with other actors in the Dutch water sector (ministries, water companies, knowledge and educational institutions, non-governmental organisations and private businesses). Moreover, for added purposefulness, the water boards should work together to set up country coalitions or act under the auspices of the Dutch Association of Water Boards more often.

NWB Fonds intends to provide more guidance in this respect, to ensure that development cooperation by water boards does real good. The employees and directors of the water boards are doing their bit – in numerous places all over the world, their actions and advice can make the difference between being powerless against the water stress and developing water management and water administration.

Responsibility statement

The Managing Board hereby states that, to the best of its knowledge, the financial statements give a true and fair view of the Bank's assets, liabilities, financial position and profit. It also states that, to the best of its knowledge, the management report includes a fair view of the Bank's position at the balance sheet date and of its development and performance during the financial year for which the financial information is set out in the financial statements, together with a description of the principal risks the Bank faces.

The Hague, 23 March 2011

The Managing Board

R.A. Walkier
L.M.T. van Velden

Remuneration report

Remuneration policy

NWB Bank's remuneration policy is aimed at recruiting and retaining highly qualified and skilled directors. NWB Bank generally pursues a policy of moderation with respect to directors' remuneration, in accordance with generally accepted standards.

Over the past years, the Bank's policy has resulted in more restrained remuneration for its Managing Board members. The most recent amendment with respect to the variable remuneration component was a reduction to a maximum of 15% with effect from 1 January 2010. The General Meeting of Shareholders resolved to adopt this amendment on 23 April 2009. During a meeting with shareholder representatives in that same year, the remuneration policy with respect to NWB Bank's Managing Board was discussed. This resulted in a proposal to amend the remuneration policy, which was approved during the Annual General Meeting of Shareholders on 22 April 2010. This resolution entails a maximum salary (including fixed and variable remuneration) of € 280,000 to be paid to the Managing Board's Chairman and a maximum of 85% of that amount for other members of the Managing Board. Departures are permitted should labour market conditions put the continuity of the Bank's high-quality management at risk. The fixed remuneration is subject to annual indexation. The new remuneration policy has retroactive effect to 1 January 2010 and applies to newly appointed members of the Managing Board as from that date.

The remuneration policies with respect to the Managing Board, senior management and the Bank's other employees are in line with the principles of the Dutch Corporate Governance Code and the Banking Code.

The total remuneration of the Managing Board members comprises a base salary and a variable remuneration component. Further details are provided below.

Base salary

Effective 1 January 2010, a maximum base salary of 85% of € 280,000 is paid to the Managing Board's Chairman and a maximum of 85% of € 238,000 for other members of the Managing Board. This applies to newly appointed members as from 1 January 2010. The base salary is subject to annual indexation.

Variable remuneration

Variable remuneration is based on the relevant member's performances, those of the departments he or she is responsible for and those of the Bank as a whole. The performances have been quantified as pre-determined and assessable performance criteria. The variable remuneration of the Managing Board members comprises a short-term element (10%) and a long-term element (5%). The amounts of both are determined on the basis of pre-agreed short-term targets for the relevant year. The long-term element is deferred, with payment being conditional upon the achievement of pre-agreed long-term targets.

The long-term categories are:
- Maintenance of the AAA ratings
- Strategy

Following each four-year period, achievement of targets in these long-term categories is assessed and payment of the annual deferred variable component of a maximum of 5% is decided upon.

The short-term element of the variable remuneration is determined on the basis of the following categories:
- Profit (in line with the targets set out in the annual budget)
- Risk management (in line with internal and external sets of standards)
- Strategy/policy implementation (in line with the targets set out in the annual policy paper)
- Personal areas for attention

Following each year, performance is assessed against the targets. The granting of the variable remuneration component is at the sole discretion of the Supervisory Board. In extraordinary circumstances, the Supervisory Board has the discretion to adjust the variable remuneration where it believes the outcome would otherwise be unfair or unintended. Furthermore, it has the power to claim back the variable remuneration from a Managing Board member should financial or other data underlying the granting prove to be incorrect.

Given the nature of the Bank's business and its position in society, no scenario analyses were performed in setting the amounts and structure of the variable remuneration.

Term of employment contracts
Managing Board members are appointed for a term of office of no more than four years, with the option of reappointment for periods of no more than four years. This means that their employment contracts are reviewed and analysed every four years.

Pensions
The pension benefits of the members of the Managing Board have been insured on the same terms as those of the other NWB Bank employees, with pension premiums being borne by NWB Bank. Mr Walkier's pre-pension plan was terminated with effect from 1 January 2006. In line with the relevant provisions in the collective bargaining agreement for the banking industry, pre-pension benefits accrued thus far were made subject to annual indexation. In addition, an annual amount in partial compensation is paid to Mr Walkier in accordance with the life-course savings plan as part of his salary. Pension contracts for members of the Managing Board provide for average-pay plans. An average-pay plan has applied to Mr Walkier since the date of his appointment as Chairman of the Managing Board, which is 24 April 2008.

Remuneration of members of the Managing Board in 2010

Base salary

Ms Van Velden is subject to the new remuneration policy adopted with effect from 1 January 2010, which applies to newly appointed Managing Board members. In 2010, Mr Walkier's base salary remained unchanged from 2009. Effective 1 January 2010, however, the Managing Board members' fixed remuneration is subject to annual indexation.

Variable remuneration

In February 2011, the Remuneration and Appointment Committee assessed NWB Bank's actual results against pre-determined targets, concluding that all targets were achieved in full. Under the Managing Board's performance contract, which was revised following the introduction of the Banking Code, this has resulted in a proposal from the Remuneration and Appointment Committee to the Supervisory Board.

Performance assessment of the Managing Board

The table below shows the results of the performance assessment adopted by the Supervisory Board.

CATEGORY	TARGET	ACHIEVEMENT
Profit	In line with the targets set out in the annual budget	Achieved
Risk management	In line with internal and external sets of standards	Achieved
Strategy/policy implementation	In line with the targets set out in the annual policy paper	Achieved
Personal areas for attention	Walkier	Achieved
	Van Velden	Achieved

The variable components which the Supervisory Board awarded were 10% of the base salary for both Mr Walkier and Ms Van Velden.

The table below presents the remuneration of the members of the Managing Board in 2010:

Remuneration of members of the Managing Board

(in thousands of euros)	Fixed remuneration	Variable remuneration	Pension costs / life-course savings plan
2010			
R.A. Walkier	274	27	94
L.M.T. van Velden	207	21	65
	481	48	159
2009			
R.A. Walkier	274	45	84
A.J.M.M. Van Cleef	251	35	64
	525	80	148

The fixed remuneration comprises the fixed salaries for 13 months as well as an 8% holiday allowance. The members of the Managing Board are granted a partly taxed annual expense allowance of € 2,800 each. In addition, the Bank has made a car available to them.
Mr A.J.M.M. Van Cleef, a former member of the Managing Board, was paid € 143,000 in 2010, in accordance with the arrangement set out in the Annual Report 2009. Pension benefits paid to Mr Van Cleef were € 87,000 for 2010.

Remuneration policy for 2011

The base salaries of the Managing Board members will be adjusted in 2011 on account of the agreed indexation of their fixed remuneration. In addition, the revised performance contract will be evaluated in 2011, and the outcome may result in amendments to the categories used in determining the variable remuneration.

Remuneration of members of the Supervisory Board

The remuneration of the members of the Supervisory Board is regularly compared with that in companies similar to NWB Bank and is set by the General Meeting of Shareholders. In 2011, their remuneration will be evaluated.

The current remuneration amounts are as follows:

Chairman	€ 18,570 per annum
Deputy Chairman	€ 14,350 per annum
Members	€ 12,380 per annum

Effective 1 July 2007, the following fees apply to committee members:

- An attendance fee of € 750 for each meeting, both for members of the Audit and Risk Committee and for members of the Remuneration and Appointment Committee; and
- A fixed annual membership fee of € 4,000 for members of the Audit and Risk Committee and € 3,000 for members of the Remuneration and Appointment Committee.

Details of the remuneration of the members of the Supervisory Board can be found in the notes to the 2010 financial statements (page 81). Their remuneration includes no variable components or options plans.

Bernt Schneiders,

Chair of the Dutch Association of Mayors

"Even when everything has been arranged properly, governance should still be an item on the agenda"

The Dutch Association of Mayors has some 430 members, and concerns itself with the development of the office of mayor in the broadest sense. Its Chair is Bernt Schneiders, the mayor of Haarlem. He feels that governance is an issue that should be on the agenda permanently, not only if a scandal occurs somewhere.

"It is the task of the Association to allow mayors to carry out their office as well as possible. Often, that is a matter of gathering and sharing knowledge. Take for instance an issue like the introduction of a national police force. The authority regarding matters relating to public order and safety lies with the mayor. But if responsibility for the people and resources comes to lie with the minister, how will the mayors be able to keep a grip on the situation? This is an issue that is causing a great deal of debate among our members and on which we are providing input for legislative purposes. Another example is the discussion surrounding the role of mayors. Sometimes you are the municipality's leader who inspires confidence, preaches calm and brings people together. On other occasions, you are the bad guy who imposes restraining orders or shuts down pubs."

"The sets of values people have are becoming increasingly divergent. Older generations, for example, have a very different view of the government than younger people. Frits Spangenberg and Martijn Lampert's book De Grenzeloze Generatie describes that situation very neatly. Approximately 20% of individuals act with a sense of duty and a further 20% have a sense of responsibility. Another group of 30%

have a purely pragmatic view, while another 30% feel they're outsiders. In ten to fifteen years, the number of pragmatics and outsiders will probably have increased substantially. Mayors will be operating in an entirely different situation from that of the present day. The Association is discussing such developments at great length. We talk about the implications for local democracy and about the qualities that mayors will need to function optimally."

"One thing that I do not believe will ever change is that mayors live in glass houses. Concepts such as integrity and public accountability occupy a prominent place on the political agenda, and rightly so. It was not for nothing that former minister Ien Dales said that there is no such thing as a little bit of integrity. I see the mayor's role as safeguarding 100% integrity in local administration. That is our duty, together with other parties. In Haarlem, the tools we use include a code of integrity and a whistleblowing procedure. We also have clear-cut arrangements about openness of information and secondary work and about accepting gifts. Our 1,100 civil servants and their administrators know precisely how they are expected to act. Haarlem's arrangements are all based on models developed by the Association of Netherlands Municipalities. Even if everything is arranged properly, you have to make sure that the subject of governance is on the agenda. A code alone is not enough. The entire municipal civil service must feel that management is monitoring that governance."

"This area has changed a great deal in a relatively short space of time. When I was the mayor of Landsmeer, I would receive about ten Christmas gifts. That was very common at the time. Over the years, partly because of all manner of affairs, people have become more careful and regulations have been introduced, such as the Public Administration (Probity Screening) Act. It is also important not to underestimate the role of the media. They follow the civil service and administrative sector very closely. More and more information can be requested by them, and anything can become the subject of detailed scrutiny. That does not worry me, though I sometimes wonder whether everybody using the Internet needs to be able to see the tiniest details of where, when and with whom I had a sandwich that day."

Financial Statements

Statement of income

for the year ended 31 December 2010

(in millions of euros)	Notes	2010	2009
Interest income		**1,779**	1,750
Interest expense		**1,675**	1,658
Interest	1	**104**	92
Realised/unrealised changes in fair value portfolio	2	**-40**	-2
Total operating income		**64**	90
Employee benefits expense	3	**4**	4
Other administrative expenses	4	**6**	5
Contribution to Stichting NWB Fonds	5	**2**	4
Employee benefits expense and other administrative expenses		**12**	13
Depreciation and amortisation	6	**1**	1
Total operating expenses		**13**	14
Profit before income tax		**51**	76
Income tax expense	7	**13**	19
Profit for the year		**38**	57

Statement of financial position

as at 31 December 2010 before appropriation of profit

(in millions of euros)	Notes	2010	2009
Assets			
Cash	8	**13**	467
Financial assets stated at fair value through profit or loss	9	**43,285**	39,260
Available-for-sale financial assets	10	**861**	928
Derivative assets	11	**4,659**	2,642
Bank loans and receivables	12	**2,363**	2,647
Public-sector loans and receivables	13	**5,817**	6,250
Income tax	14	**18**	26
Property and equipment	15	**7**	5
Intangible assets	16	**1**	1
Deferred tax assets	17	**23**	34
Other receivables	18	**52**	28
Accruals	19	**120**	134
Total assets		**57,219**	52,422
Equity and liabilities			
Banks	20	**1,286**	323
Financial liabilities stated at fair value through profit or loss	21	**41,943**	37,833
Derivative liabilities	22	**5,704**	4,950
Funds entrusted	23	**1,559**	2,308
Debt securities	24	**5,444**	5,755
Other liabilities	25	**69**	69
Accruals	26	**146**	136
		56,151	51,374
Paid-up share capital	27	**7**	7
Available-for-sale reserve	28	**-7**	-29
Other revaluation reserves	28	**1**	1
General reserve	29	**1,029**	1,012
Profit for the year	30	**38**	57
Equity		**1,068**	1,048
Total equity and liabilities		**57,219**	52,422
Irrevocable commitments	31	**6,315**	5,464
Contingent liabilities	32	**199**	185

Statement of comprehensive income

for the year ended 31 December 2010

(in millions of euros)	2010	2009
Profit for the year	38	57
Net changes in fair value of available-for-sale financial assets	30	-22
Income tax on income and expense recognised directly in equity	-8	6
Income and expense recognised directly in equity	22	-16
Comprehensive income	**60**	41

Statement of changes in equity

for the year ended 31 December 2010

(in millions of euros)	Paid-up share capital	Available-for-sale reserve	Other revaluation reserves	General reserve	Profit for the year	Total
As at 1 January 2009	**7**	**-13**	**1**	**1,043**	**9**	**1,047**
Change in fair value of available-for-sale financial assets		-16				-16
Income and expense recognised directly in equity		-16				-16
Profit appropriation of previous year				9	-9	
Dividends				-40		-40
Profit for the year					57	57
As at 31 December 2009	**7**	**-29**	**1**	**1,012**	**57**	**1,048**
Change in fair value of available-for-sale financial assets		22				22
Income and expense recognised directly in equity		22				22
Profit appropriation of previous year				57	-57	
Dividends				-40		-40
Profit for the year					38	38
As at 31 December 2010	**7**	**-7**	**1**	**1,029**	**38**	**1,068**

Statement of cash flows

for the year ended 31 December 2010

(in millions of euros)	2010	2009
Profit before income tax	**51**	76
Adjusted for:		
Income tax	**7**	-
Depreciation and amortisation	**1**	1
Change in fair value of assets and liabilities	**2**	3
Changes in:		
Bank loans and receivables not available on demand	**1,248**	-1,288
Public-sector loans and receivables	**-2,942**	-4,075
Funds entrusted	**-454**	663
Income tax paid	**1**	-14
Other assets and liabilities	**50**	-146
Net cash flows used in operating/banking activities	**-2,036**	-4,780
Additions to interest-bearing securities	**-**	-50
Sales and redemptions of interest-bearing securities	**437**	362
Balance	**437**	312
Additions to property and equipment	**-2**	-1
Disposals	**-**	-
Balance	**-2**	-1
Additions to intangible assets	**-**	-
Net cash flows from investing activities	**435**	311
Issued bond loans, notes	**9,679**	7,631
Repayment of bond loans, notes	**-5,592**	-5,077
Issued CD/CP	**27,035**	25,868
Repayment of CD/CP	**-29,935**	-23,519
Balance	**1,187**	4,903
Dividend paid	**-40**	-40
Net cash flows from financing activities	**1,147**	4,863
Cash flow	**-454**	394

(in millions of euros)	**2010**	2009
Cash flow	**-454**	394
Cash and cash equivalents as at 1 January	**467**	73
Cash and cash equivalents as at 31 December	**13**	467
Cash and cash equivalents comprise		
Banks, balances available on demand	**0**	0
Banks, cash and receivables	**13**	467
Cash and cash equivalents as at 31 December	**13**	467

The amount disclosed under "Change in fair value of assets and liabilities" is made up of changes in fair values of financial assets and liabilities, changes in value of derivatives and penalties paid and exchange differences.

In 2010, interest payments of € 1,645 million were made (2009: € 1,656 million) and interest income of € 1,751 million was received (2009: € 1,763 million).

Notes to the Financial Statements

Corporate information

The 2010 financial statements of Nederlandse Waterschapsbank N.V. (NWB Bank) were prepared by the Managing Board and authorised for issue by the Supervisory Board on 23 March 2011 and will be submitted for approval to the Annual General Meeting of Shareholders (AGM) on 28 April 2011.

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.

Basis of preparation

Statement of compliance

The financial statements of NWB Bank have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (EU IFRS) and the financial reporting requirements contained in Part 9 of Book 2 of the Dutch Civil Code.

Changes in accounting policies

No changes in accounting policies were made in 2010.
IFRS 9 Financial Instruments: Classification and Measurement, as published, only deals with the classification and valuation of financial assets and liabilities. It is expected to replace IAS 39 once other phases relating to financial instruments have been completed. It applies to financial years commencing on or after 1 January 2013, with early adoption permitted. IFRS 9 has not been endorsed by the EU, however, which means that companies applying EU IFRS may not adopt IFRS 9 as yet.

The revision of macro hedge accounting is of particular relevance to NWB Bank, given the recently introduced macro fair value hedge for new lending. More clarification on this subject is expected in mid-2011.

Significant assumptions and estimation uncertainties

General

The preparation of the annual financial statements in accordance with EU IFRS requires that the Managing Board forms opinions and makes estimates and assumptions that have an impact on the application of accounting policies and the reported value of assets and liabilities and of income and expenditure. The estimates and associated assumptions are based on past experience, market information and various other factors considered to be reasonable given the circumstances.

The outcomes form the basis for the opinion on most of the carrying amounts of assets and liabilities which cannot be easily established from other sources. The actual outcomes may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions of estimates are recognised in the period in which the estimate was revised if the revision only has consequences for that period, or in the period of revision and future periods if the revision has consequences for both the reporting period and future periods.

Opinions formed by the Managing Board for the application of EU IFRS that could have a significant impact on the annual financial statements and estimates containing a substantial risk of a material adjustment in a subsequent financial year relate primarily to the measurement of financial assets and liabilities stated at fair value.

Measurement of financial assets and liabilities stated at fair value

The fair value is the amount for which an asset could be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties.

The items Financial assets stated at fair value and Available-for-sale financial assets and Financial liabilities stated at fair value include listed, interest-bearing securities. Insofar as a relevant middle rate is available for these items, it is used as the best indication of fair value. For the majority of NWB Bank's financial instruments, the fair value cannot be established on the basis of a relevant middle rate because there is no listing or active market.

NWB Bank calculates the fair value of all other financial assets and liabilities using models. The models use various assumptions relating to the discount rate and the timing and the size of the projected future cash flows. When calculating the fair value of options, option pricing models have been used.

Summary of significant accounting policies

General

These financial statements have been prepared in part on a historical cost basis. The financial assets and liabilities stated at fair value through profit or loss, available-for-sale financial assets through equity, derivatives, and property and equipment are stated at fair value. The financial statements are presented in millions of euros and all amounts in the Notes are rounded to the nearest thousand (€ 000), except when otherwise indicated.

Recognition

An asset is recognised when it is probable that the future economic benefits will flow to the company and the asset can be measured reliably. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which settlement will take place can be measured reliably.

A financial asset or financial liability is recognised from the time the company has the right to the benefits from or is bound by the obligations arising from the contract terms of the financial instrument.

Income is recognised in the statement of income when an increase in future economic benefits, related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably. Expenses are recognised in the statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised where:

- NWB Bank no longer has the right to receive cash flows from the asset;
- NWB Bank has retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a special arrangement; and
- NWB Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where NWB Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of NWB Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is stated at the lower of the original carrying amount of the asset and the maximum amount of consideration that NWB Bank could be required to pay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of NWB Bank's continuing involvement is the amount of the transferred asset that NWB Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset stated at fair value, the extent of NWB Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on different terms, or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised. The difference in the respective carrying amounts is recognised in profit or loss.

Measurement

After 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 stated at amortised cost. The financial assets stated at fair value through profit or loss, the available-for-sale financial assets and derivative assets are stated at fair value.

After initial recognition, financial liabilities are classified as financial liabilities stated at fair value through profit or loss, derivative liabilities, funds entrusted or debt securities. Funds entrusted and debt securities are stated at amortised cost. The financial liabilities stated at fair value through profit or loss and derivative liabilities are stated at fair value.

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 stated 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 risks in the item Available-for-sale financial assets using interest rate 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 risk 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 Realised/unrealised changes in fair value portfolio. The remaining changes in value of the relevant Available-for-sale financial assets not effectively hedged in the hedging relationship are recognised in equity. The changes in value of the derivatives concerned are also recognised in profit or loss under Realised/unrealised changes in fair value portfolio.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at the spot middle rates (Amsterdam exchange rates) ruling at the reporting date. The use of middle rates is connected to the policy of NWB Bank, which states that all foreign currency positions are hedged individually, so that effectively the day-today foreign currency-denominated flows of funds are virtually nil.

Gains or losses arising from transactions in foreign currencies are translated at the rates ruling on the transaction date. All currency translation differences of monetary assets and liabilities are recognised in profit or loss.

Currency swaps are used to hedge foreign exchange exposures on loans receivable and payable. These positions are translated at the fair value of the instrument ruling at the reporting date.

Financial assets stated at fair value through profit or loss

Financial assets are initially classified as stated at fair value through profit or loss if they are part of NWB Bank's portfolio and are managed on a fair value basis. After initial recognition, revaluation gains and losses are recognised in profit or loss under the item Realised/unrealised changes in fair value portfolio.

Available-for-sale financial assets

Financial assets can be classified as available-for-sale. In general, these are financial assets intended to be held for an indefinite period and which can be sold to meet liquidity requirements or in response to changes in the interest rate. The interest-bearing securities recognised under this item are initially stated at fair value with changes in value being recognised in equity. When financial assets are derecognised the cumulative profit recognised in equity or the cumulative loss is recognised in profit or loss. If the interest-bearing securities are included in a fair value hedge relationship, changes in fair value, insofar as they are effective, are recognised in profit or loss instead of in equity.

Derivatives

A derivative is a financial instrument with the following three characteristics:

- The value changes as a result of changes in market factors, such as a certain interest rate, price of a financial instrument, exchange rate, creditworthiness or other variable (the underlying value);
- No or a minor net initial investment is required in comparison with other types of contracts that respond in a similar way to changes in the market factors mentioned; and
- It is settled at a future date.

Derivatives are recognised initially at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised directly in profit or loss under Realised/unrealised changes in fair value portfolio.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are recognised at amortised cost using the effective interest method. A provision for doubtful debts is not necessary given the risk profile of NWB Bank's counterparties.

'Klimleningen' included in Loans and receivables are carried at their principal plus the contractually accrued interest. Annual additions are recognised in profit or loss under Interest income.

Property and equipment

Property and equipment is stated at fair value and cost, respectively, net of straight-line depreciation. The fair value of property is appraised annually and measured regularly based on appraisals conducted by independent valuers. The most recent appraisal was conducted in 2004. Depreciation on these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

Annual depreciation rates are:

■ Building	2 ½%
■ Fixtures and installations	10%
■ Equipment, furniture and fittings, etc.:	
- furniture and fittings, etc.	10%
- office equipment	20%
■ Computer equipment:	
- personal computers	20%
- other equipment	20%
■ Cars	20%

Land is not depreciated. The asset's residual value, useful life and measurement methods are reviewed and adjusted, if appropriate, at each financial year-end.

Intangible assets

This item includes the costs and expenditure related to computer software. After initial recognition, the intangible asset is recognised at cost less any accumulated amortisation and impairments. The estimated useful life is considered to be five years and amortisation is straight-line over the estimated useful life. The amortisation period and amortisation method will be reviewed if there is cause to do so.

Financial liabilities stated at fair value through profit or loss

Financial liabilities are classified as stated at fair value if they are part of NWB Bank's portfolio and are therefore managed on a fair value basis. The liabilities included under this item are recognised at fair value. After initial recognition, revaluation gains and losses are recognised in profit or loss under the item Realised/ unrealised changes in fair value portfolio.

Funds entrusted

All loans under Funds entrusted are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised.

Offsetting

If there is a legally enforceable right to offset balances, contractually or otherwise agreed, an amount payable to a creditor may be fully or partly offset or otherwise settled against an amount receivable from the same creditor. A financial asset and a financial liability are offset and reported on a net basis if there is a legally enforceable right to offset the recognised amounts and if there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to NWB Bank and the revenue can be reliably measured.

Interest

Interest income and expense are recognised in accordance with the effective interest method. The application of this method includes the amortisation of any discount or premium or other differences (including transaction costs and applicable commissions) between the initial carrying amount of an interest-bearing instrument and the amount at maturity, based on the effective interest method.

Employee benefits – defined benefit plan obligations

NWB Bank has agreed a defined benefit pension plan with its employees. The plan is funded by premiums to an insurance company based on regular actuarial calculations.

A defined benefit plan is a scheme in which the payment to the retired plan participant is defined, taking account of factors such as age, years of service and salary. The provision for defined benefit plans is the present value of the pension liabilities at the reporting date less the fair value of the plan assets. These are adjusted for unrecognised results and costs relating to years of service.

The defined benefit plan obligations are calculated annually by an independent actuary using the projected unit credit method. The obligation is calculated using the expected return on plan assets.

Actuarial gains and losses are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous financial year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are amortised over the expected average remaining working lives of the employees participating in the plans.

Income tax

Income tax is recognised as an expense at the same time as profit. Deferred tax assets and deferred tax liabilities are measured on an undiscounted basis.

Deferred tax

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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on current tax rates and tax laws.

In recognising deferred tax assets, account is taken of the income tax due on the changes in value of the interest-bearing securities included under Available-for-sale financial assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset them exists.

Basis for preparation of the statement of cash flows

The statement of cash flows is presented in accordance with the indirect method, distinguishing between the cash flows from operating/banking, as well as investing and financing activities.

Cash and cash equivalents represent those assets which can be converted into cash without restriction, including the cash available as well as balances payable on demand at central banks.

The changes in lending, funds entrusted and based on the bank deposit operations are stated under cash flow from operating/banking activities given the nature of the operations.

Investing activities include the purchase and sale and settlement of investment portfolios, as well as the purchase and sale of property and equipment. New long-term loans taken out and repaid (terms > 1 year) are classified as a financing activity.

Segment information

IFRS 8 requires that operating segments be identified that are components of an entity that the entity's chief operating decision maker distinguishes in its internal control system.

In its assessment and decision-making about returns and allocation of resources, NWB Bank's Managing Board does not distinguish between any such operating segments. Accordingly, no segment information is disclosed.

1 Interest

Interest income consists of interest income on loans and receivables, financial assets stated at fair value through profit or loss, available-for-sale financial assets and derivatives, as well as commissions having an interest nature. Premiums and discounts on loans and receivables not stated at fair value are recognised using the effective interest method, together with the relevant interest income.

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, financial liabilities stated at fair value through profit or loss and derivatives, as well as commissions having an interest nature, penalty interest on early redemptions, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

	2010	2009
Interest income on loans and receivables at amortised cost	**292,194**	317,630
Interest income on financial assets stated at fair value	**1,451,454**	1,393,770
Interest income on available-for-sale financial assets	**35,174**	38,605
Interest income	**1,778,822**	1,750,005
Interest expense on banks, funds entrusted and debt securities at amortised cost	**-210,468**	-261,640
Interest expense on financial liabilities stated at fair value	**-703,096**	-853,344
Derivatives (net interest income/expense)	**-761,662**	-542,956
Interest expense	**-1,675,226**	-1,657,940
Interest	**103,596**	92,065

Interest income on loans and receivables at amortised cost includes a one-off gain of € 17.1 million from a realised price difference upon sale in 2010 (2009: € 0.2 million).

2 Realised/unrealised changes in fair value portfolio

This item can be broken down as follows:

	2010	2009
Unrealised changes in fair value:		
Financial assets stated at fair value	**930,583**	-280,052
Financial liabilities stated at fair value	**-34,784**	-247,880
Derivatives	**-912,370**	518,979
Revaluation of hedged positions recognised in profit or loss	**32,339**	-46,979
Revaluation of hedging instruments	**-38,558**	52,812
	-22,790	-3,120
Realised changes in fair value:		
Loss on sale of available-for-sale financial assets	**-60**	-
Loss on sale of financial assets stated at fair value	**-16,719**	1,031
Other	**-58**	174
	-16,721	1,205
Total	**-39,511**	-1,915

The realised changes in fair value include premiums and fees received on settlement of derivative contracts, realised revaluation results on the sale of interest-bearing securities and commission.

3 Employee benefits expense

	2010	2009
Wages and salaries	**3,171**	2,946
Pension costs	**624**	688
Social security costs	**267**	251
Other	**315**	397
	4,377	4,282

The remuneration, including regular pension costs, of the members of the Managing Board amounted to € 688,000 in 2010 (2009: € 753,000). The average number of employees expressed in FTEs, including the Managing Board, was 36.5 (2009: 33.2).

Remuneration of members of the Managing Board

	Fixed remuneration	Variable remuneration	Pension costs and lifecourse savings plan
2010			
L.M.T. van Velden	207	21	65
R.A. Walkier	274	27	94
	481	48	159
2009			
A.J.M.M. Van Cleef	251	35	64
R.A. Walkier	274	45	84
	525	80	148

The fixed remuneration comprises the fixed salaries for 13 months as well as an 8% holiday allowance. The members of the Managing Board are granted a partly taxed annual expense allowance of € 2,800 each. In addition, the Bank has made a car available to them. Mr A.J.M.M. Van Cleef, a former member of the Managing Board, was paid € 143,000 in 2010, in accordance with the arrangement set out in the Annual Report 2009. Pension benefits paid to Mr Van Cleef were € 87,000 for 2010.

4 Other administrative expenses

These include accommodation, office and general expenses. The remuneration of the seven (2009: 7) Supervisory Board members, which is also included in this item, amounted to € 168,000 (2009: € 159,000).

Remuneration of members of the Supervisory Board

	2010	2009
Dr J.C.K.W. Bartel	**8**	23
E.F. Bos	**26**	19
Professor dr. R.G.C. van den Brink	**42**	40
Professor dr. J.J.M. Jansen	**10**	-
A.J.A.M. Segers	**24**	26
V.I. Goedvolk	**27**	24
F.J.M. Houben	**-**	4
E.H. baron van Tuyll van Serooskerken	**14**	14
B.J.M. baron van Voorst tot Voorst	**17**	9
	168	159

The above amounts include membership fees for committees and VAT, if any.

Audit fees

In the financial year, the following fees were recognised, within the meaning of Section 382a of Book 2 of the Dutch Civil Code. The amounts include VAT.

	2010	2009
Audit of the financial statements	**277**	214
Other assurance engagements	**36**	60
Other non-assurance services	**61**	14
	374	288

5 Contribution to Stichting NWB Fonds

In the financial year, Stichting NWB Fonds received an amount of € 2 million (2009: € 4 million). Stichting NWB Fonds is an institution for general public advancement and is involved in encouraging developments in water management in developing countries. The Association of Water Boards nominates the majority of members of the management of Stichting NWB Fonds.

6 Depreciation and amortisation

This item consists of depreciation of the office building, building fixtures, installation costs, furniture and fittings, computer equipment and cars as disclosed in the note to the item Property and equipment. The amortisation of intangible assets is also included in this item.

7 Income tax expense

	2010	2009
Profit before income tax	**51,105**	75,949
Income tax at 25.5%	**13,031**	19,367
Adjustment for non-deductible amounts	**-**	-128
Income tax adjustments for prior financial years	**-12**	-
Adjustment for deferred tax	**-303**	-
Income tax expense	**12,716**	19,239
Effective tax burden (%)	**24.9**	25.3

The income tax burden can be broken down into current tax and deferred tax as follows:

	2010	2009
Current tax		
For the year under review	**11,477**	3,703
Adjustment for non-deductible amounts	**-**	-128
	11,477	3,575
Income tax adjustments for prior financial years	**-12**	-
	11,465	3,575
Deferred tax		
Release of deferred tax asset arising when the Bank first became liable to tax	**9,110**	10,123
Creation of deferred provision for pensions	**-759**	-
Addition to deferred provision for pensions	**-18**	-
Recalculation of deferred tax based on new corporate income tax rate	**456**	-
Income tax on income and expense recognised directly in equity	**-7,538**	5,541
	1,251	15,664
Income tax expense	**12,716**	19,239

The current tax charge for the 2010 financial year is lower than the statutory tax rate of 25.5%. This is caused primarily by the release of the measurement difference of assets and liabilities when the Bank first became liable to income tax on 1 January 2005 and the write-down of available-for-sale financial assets.

8 Cash

This item consists of legal tender and on-demand balances at De Nederlandsche Bank.

9 Financial assets stated at fair value through profit or loss

This item consists of loans and receivables and interest-bearing securities stated at fair value through profit or loss on initial recognition.

	2010	2009
This item can be broken down as follows:		
Public-sector loans and receivables	**41,638,637**	37,295,008
Interest-bearing securities	**1,646,743**	1,964,691
	43,285,380	39,259,699

Some of the assets in this item are pledged to De Nederlandsche Bank. This is explained in further detail in the financial statements in the liquidity risk paragraph of the section on Risk Management. Furthermore, securities were pledged under CSA arrangements.

Breakdown of public-sector loans and receivables by nature of the receivable:

	2010	2009
Receivables from or under guarantee from the Dutch government	**41,230,419**	36,848,705
Receivables from or under guarantee from foreign governments	**134,297**	241,595
Other receivables from the government sector and others	**273,921**	204,708
Total	**41,638,637**	37,295,008

Receivables from or under guarantee from the Dutch government can be broken down as follows:

	2010	2009
Water boards	**4,170,147**	3,608,282
Municipal authorities	**6,215,223**	5,757,345
Housing corporations	**26,485,036**	22,880,036
Other	**4,360,013**	4,603,042
Total	**41,230,419**	36,848,705

Breakdown of interest-bearing securities:

Issued by public-sector bodies	333,123	496,168
Issued by others	1,313,620	1,468,523
Total	**1,646,743**	**1,964,691**

The movement in interest-bearing securities in 2009 and 2010 was as follows:

	Public-sector bodies	Others	Total
Balance as at 1 January 2009	743,123	1,610,509	2,353,632
Purchases	-	-	-
Sales and redemptions	-237,052	-125,436	-362,488
Changes in value	-21,837	-28,637	-50,474
Balance as at 31 December 2009	484,234	1,456,436	1,940,670
Accrued interest	11,934	12,087	24,021
Carrying amount as at 31 December 2009	496,168	1,468,523	1,964,691
Balance as at 1 January 2010	484,234	1,456,436	1,940,670
Purchases	-	-	-
Sales and redemptions	-136,814	-150,520	-287,334
Changes in value	-24,474	-1,621	-26,095
Balance as at 31 December 2010	322,946	1,304,295	1,627,241
Accrued interest	10,177	9,325	19,502
Carrying amount as at 31 December 2010	333,123	1,313,620	1,646,743

10 Available-for-sale financial assets

The movement in available-for-sale financial assets in 2010 and 2009 was as follows:

	2010	2009
Balance as at 1 January	**894,158**	913,074
Purchases of government bonds	**-**	50,000
Sales of government bonds	**-146,445**	-
Changes in value	**85,270**	-68,916
Balance as at 31 December	**832,983**	894,158
Accrued interest	**28,030**	33,789
Carrying amount as at 31 December	**861,013**	927,947

11 Derivative assets

This item consists of interest rate swaps and currency swaps, options and caps. These products are carried at fair value, including accrued interest. Models are used for measurement purposes, using the swap curve for discounting.

Breakdown according to remaining term to maturity of the positive replacement values as at 31 December 2010:

	<3 months	3-12 months	1-5 years	>5 years	2010 Total
Interest rate swaps	5,545	23,554	520,173	892,268	**1,441,540**
Currency swaps	200,973	249,686	1,322,525	1,411,804	**3,184,988**
Caps, floors and swaptions	-	-	92	32,842	**32,934**
Total	206,518	273,240	1,842,790	2,336,914	**4,659,462**

Breakdown according to remaining term to maturity of the positive replacement values as at 31 December 2009:

	<3 months	3-12 months	1-5 years	>5 years	2009 Total
Interest rate swaps	11,332	28,722	720,836	649,518	**1,410,408**
Currency swaps	169,680	201,097	376,450	470,697	**1,217,924**
Caps, floors and swaptions	-	-	424	13,197	**13,621**
Total	181,012	229,819	1,097,710	1,133,412	**2,641,953**

12 Bank loans and receivables

This item comprises mainly collateral under CSA arrangements, which is not at the Bank's disposal.

It can be broken down as follows:	2010	2009
Balances payable on demand	**136**	87
Collateral	**2,362,480**	2,647,300
Total	**2,362,616**	2,647,387

13 Public-sector loans and receivables

This item consists of loans and receivables, other than interest-bearing securities, from customers other than banks. The receivables, which, apart from several employee loans, are all to public-sector customers, are mostly long-term. Public-sector loans and receivables are understood to include those to or guaranteed by the Dutch government and public authorities abroad, and to government-controlled public limited liability companies and other businesses or institutions whose tasks derive from public authorities.

Loans and receivables can be broken down as follows:	**2010**	2009
Receivables from or under guarantee from the Dutch government	**5,719,727**	6,148,273
Other loans and receivables to the public sector and others	**97,047**	101,545
Total	**5,816,774**	6,249,818

Breakdown by counterparty:	**2010**	2009
Water boards	**1,197,725**	1,213,216
Municipal authorities	**1,240,144**	1,585,418
Housing corporations	**2,870,401**	2,994,687
Other	**508,504**	456,497
Total	**5,816,774**	6,249,818

Given the risk profile of NWB Bank's counterparties, a provision for uncollectibility is not necessary. This is supported by the fact that NWB Bank has never suffered a loan loss in its history.

Some of the assets in this item are pledged to De Nederlandsche Bank. This is explained in further detail in the financial statements in the liquidity risk paragraph of the section on Risk Management.

Loans and receivables to former members of the Managing Board are outstanding to a total of:

	2010	2009
	460	166

14 Income tax

With effect from 1 January 2005, NWB Bank has been liable to corporate income tax. In 2008, the tax authorities approved the fair values applied in the opening balance sheet for tax purposes and the allocation of the fair value difference over future accounting periods.

This item relates to income tax receivable as at 31 December 2010 for the years 2009 and 2010.

It can be broken down as follows:	**2010**	2009
2008	**-**	12,316
2009	**12,789**	13,645
2010	**5,633**	-
	18,422	25,961

The amount receivable for the financial year can be broken down as follows:	**2010**	2009
Current tax expense	**-11,477**	-3,575
Advances paid	**17,110**	17,220
	5,633	13,645

15 Property and equipment

The breakdown of property and equipment and changes in 2010 is as follows:

	Property in use by the Bank	Other equipment	Total
Carrying amount as at 31 December 2009	3,790	786	**4,576**
Additions in 2010	2,265	321	**2,586**
Disposals in 2010	-	-20	**-20**
	6,055	1,087	**7,142**
Depreciation in 2010	-308	-262	**-570**
Carrying amount as at 31 December 2010	5,747	825	**6,572**

As at 31 December 2010, the cumulative balances were:

Additions	7,968	5,783	**13,751**
Depreciation	-3,188	-4,958	**-8,146**
Amortised cost	4,780	825	**5,605**
Revaluations	967	-	**967**
	5,747	825	**6,572**

The Bank's office building was refurbished in 2010.

Other equipment consists mainly of furniture and fittings, computer equipment and cars.
The breakdown of property and equipment and changes in 2009 were as follows:

	Property in use by the Bank	Other equipment	Total
Carrying amount as at 31 December 2008	3,799	700	**4,499**
Additions in 2009	163	360	**523**
Disposals in 2009	-	-10	**-10**
	3,962	1,050	**5,012**
Depreciation in 2009	-172	-264	**-436**
Carrying amount as at 31 December 2009	3,790	786	**4,576**

As at 31 December 2009, the cumulative balances were:

	Property in use by the Bank	Other equipment	Total
Additions	5,703	5,482	**11,185**
Depreciation	2,880	4,696	**7,576**
Amortised cost	2,823	786	**3,609**
Revaluations	967	-	**967**
	3,790	786	**4,576**

16 Intangible assets

The breakdown of this item in 2010 and 2009 was as follows:

	2010	2009
Carrying amount as at 1 January	**1,279**	1,690
Additions	**269**	-
Amortisation	**-449**	-411
Carrying amount as at 31 December	**1,099**	1,279

17 Deferred tax assets

The changes in deferred tax assets were as follows:

	2010	2009
Balance as at 1 January	**34,447**	44,570
Release when the Bank first became liable to tax	**-9,110**	-10,123
Change as a result of temporary differences in the financial year recognised in profit or loss	**18**	-
Change as a result of temporary differences in previous financial years recognised in profit or loss	**-2,155**	-
Change as a result of tax rate changes in future financial years recognised in profit or loss	**-456**	-
Balance as at 31 December	**22,744**	34,447

18 Other receivables

This item relates principally to amounts receivable and payments in transit on the reporting date.

19 Accruals

This item primarily comprises interest accrued on interest-bearing assets not recognised at fair value through profit or loss. It also comprises prepaid amounts for costs related to the next accounting period or periods and the uninvoiced amounts to be received regarding income recognised in the current or previous accounting period or periods.

20 Banks

This item consists of liabilities, other than debt securities, due to domestic and foreign banks. These liabilities result largely from long-term loans. The collateral included in this item relates to CSA arrangements.

This item can be broken down as follows:	**2010**	2009
Cash loans	**105,000**	150,000
Loans taken out at banks	**86,657**	91,745
Collateral	**1,094,640**	81,490
	1,286,297	323,235

21 Financial liabilities stated at fair value through profit or loss

This item consists of loans from banks, funds entrusted and debt securities classified at initial recognition as at fair value through profit or loss.

This item can be broken down as follows:	**2010**	2009
Loans taken out	**1,091,100**	759,914
Bond loans	**35,345,361**	29,595,446
Short-term debt securities	**5,506,829**	7,478,011
	41,943,290	37,833,371

22 Derivative liabilities

This item consists of interest rate swaps and currency swaps, options and caps. These products are carried at fair value. Models are used for measurement purposes, using the swap curve for discounting.

Breakdown by remaining term to maturity of negative replacement values as at 31 December 2010:

	<3 months	3-12 months	1-5 years	>5 years	2010 Total
Interest rate swaps	4,050	69,591	917,856	3,622,215	4,613,712
Currency swaps	109,723	243,921	147,394	556,130	1,057,168
Caps, floors and swaptions	-	-	90	32,645	32,735
Total	113,773	313,512	1,065,340	4,210,990	5,703,615

Breakdown by remaining term to maturity of negative replacement values as at 31 December 2009:

	<3 months	3-12 months	1-5 years	>5 years	2009 Total
Interest rate swaps	8,046	60,854	899,575	2,413,725	3,382,200
Currency swaps	78,272	228,143	287,392	959,938	1,553,745
Caps, floors and swaptions	-	-	427	13,327	13,754
Total	86,318	288,997	1,187,394	3,386,990	4,949,699

23 Funds entrusted

This item consists of liabilities, other than debt securities, due to parties other than banks.

24 Debt securities

This item, which consists of negotiable debt instruments, can be broken down as follows:

	2010	2009
Bond loans	**4,830,000**	4,080,000
Short-term debt securities	**613,999**	1,675,089
	5,443,999	5,755,089

In 2010 and 2009, NWB Bank did not repurchase any of its own securities. The total repurchased own securities as at 31 December 2010 amounted to € 170 million (bond loans) and was deducted from the debt securities.

25 Other liabilities

This item consists principally of amounts payable and payments in transit on the reporting date, a provision for employee benefits and income tax payable.

	2010	2009
Provision for employee benefits	**3,047**	2,975
Prepaid interest and redemptions	**65,222**	65,308
Other liabilities	**1,178**	508
	69,447	68,791

Provision for employee benefits

Current service cost	**438**	321
Interest cost	**743**	760
Expected return on plan assets	**-634**	-458
Employee benefits expenses	**547**	623
Defined benefit obligation	**16,525**	14,571
Fair value of plan assets	**-13,326**	-12,965
	3,199	1,606
Net actuarial gains (losses)	**-152**	1,369
Provision for employee benefits	**3,047**	2,975

	2010	2009
Opening defined benefit obligation	**14,571**	12,441
Interest cost	**743**	760
Current service cost	**438**	321
Benefits paid	**-559**	-621
Actuarial losses (gains) on obligation	**1,332**	1,670
Closing defined benefit obligation	**16,525**	14,571
Opening fair value of plan assets	**12,965**	10,193
Expected return	**634**	458
Employer contributions	**475**	1,124
Benefits paid	**-559**	-621
Actuarial gains (losses)	**-189**	1,811
Fair value of plan assets, 31 December	**13,326**	12,965

The projected employer contributions for 2011 to the defined benefit plans for 2010 amount to € 484,000.

The principal assumptions used in determining the provision for employee benefits are shown below:

	2010	2009
Discount rate	**4.9%**	5.2%
Expected rate of return on plan assets	**4.9%**	5.2%
Future salary increases	**2.0%**	3.6%
Future pension increases	**2.0%**	2.0%

26 Accruals

This item primarily comprises interest accrued on interest-bearing liabilities not recognised at fair value through profit or loss. It also comprises advance receipts for income attributable to the next accounting period or periods and uninvoiced amounts payable in relation to expenses attributable to the past accounting period or periods.

27 Paid-up share capital

This item consists of:

A shares

These shares have a nominal value of € 115 and were required to be paid up in full.
Each A share carries one vote at shareholders' meetings.

B shares

These shares have a nominal value of € 460, of which 25% was required to be paid up.
Under the Articles of Association, the Supervisory Board may call for further payments to be made.
Each B share carries 4 votes at shareholders' meetings.

Breakdown at year-end 2010:	**Issued**	**Paid up**
A shares		
Balance as at 31 December 2010 (50,478 shares)	5,805	5,805
B shares		
Balance as at 31 December 2010 (8,511 shares)	3,915	
Of which unpaid: (74% of 8,510 shares)	-2,896	
		1,019
Total paid up as at 31 December 2010		**6,824**
Total paid up as at 31 December 2009		**6,824**

28 Revaluation reserves

Movements in the revaluation reserves in 2009 and 2010 were as follows:

	Available-for-sale reserve	Share revaluation reserve	Property revaluation reserve	Total
Balance as at 1 January 2009	-12,962	9	967	**-11,986**
Amortisation	-3,165			**-3,165**
Revaluations in 2009	-65,546			**-65,546**
Effective portion of fair value hedge	46,979			**46,979**
Movement in deferred tax on unrealised revaluation	5,541			**5,541**
Balance as at 31 December 2009	-29,153	9	967	**-28,177**
Amortisation	-1,431			**-1,431**
Revaluations in 2010	63,390			**63,390**
Effective portion of fair value hedge	-32,339			**-32,339**
Loss on sale	-60			**-60**
Movement in deferred tax on unrealised revaluation	-7,537			**-7,537**
Balance as at 31 December 2010	-7,130	9	967	**-6,154**

NWB Bank states certain assets, including derivatives, at fair value. It has elected to consider the unrealised changes in their value arising upon the revaluation of such assets and the unrealised changes in the value of liabilities stated at fair value in the aggregate, given that these positions are also assessed in the aggregate as part of the Bank's risk management. If and to the extent that increases in the value of such assets must be included in a revaluation reserve pursuant to Section 390 (1) of Book 2 of the Dutch Civil Code, the net amount in unrealised changes in fair value at 31 December 2010 did not give the Bank reason to form a revaluation reserve.

29 General reserve

Changes in the general reserve were as follows:

Balance as at 1 January 2009	1,042,662
Appropriation of 2008 profit	9,032
Distribution for 2008	-40,000
Balance as at 31 December 2009	1,011,694
Appropriation of 2009 profit	56,810
Distribution for 2009	-40,000
Balance as at 31 December 2010	1,028,504

30 Profit for the year

The statement of financial position is presented before profit appropriation. The proposed profit appropriation for 2010 is included under Other information.

31 Irrevocable commitments

These commitments relate to:

	2010	2009
Loans granted but not yet paid	**4,363,076**	3,532,284
Increases in 'klimleningen' owing to accrued interest	**1,066**	3,544
Unused current account overdraft facilities	**758,367**	756,283
Unused financing facilities	**1,188,460**	1,168,633
Guarantees issued	**3,064**	3,036
	6,314,033	5,463,780

32 Contingent liabilities

This item consists of commitments which could arise on guarantees issued (Standby Letters of Credit) in connection with the cross-border financing of water boards and bank guarantees issued to business contacts amounting to € 199 million (2009: € 185 million).

33 Fair value of financial instruments

The table below sets out how the fair value of financial instruments is determined.

31 December 2010 (in millions of euros)	Valuation based on market prices	Valuation based on models with data available in the market	Valuation based on models with data unavailable in the market	Total
Assets				
Financial assets stated at fair value	573	-	42,712	**43,285**
Available-for-sale financial assets	861	-	-	**861**
Derivative assets	-	4,659	-	**4,659**
Liabilities				
Financial liabilities stated at fair value	-	-	41,943	**41,943**
Derivative liabilities	-	5,704	-	**5,704**

31 December 2009 (in millions of euros)	Valuation based on market prices	Valuation based on models with data available in the market	Valuation based on models with data unavailable in the market	Total
Assets				
Financial assets stated at fair value	783	-	38,477	**39,260**
Available-for-sale financial assets	928	-	-	**928**
Derivative assets	-	2,642	-	**2,642**
Liabilities				
Financial liabilities stated at fair value	-	-	37,833	**37,833**
Derivative liabilities	-	4,950	-	**4,950**

General

The unrealised changes in value of financial assets stated at fair value (€ 931 million) recognised in the 2010 statement of income are the net result of € 22 million in negative level 1 measurements and € 953 million in positive level 3 measurements. The unrealised changes in value of financial liabilities stated at fair value (€ 35 million) consist entirely of level 3 measurements. In 2010, no transfers between the three measurement categories were made.

The Bank establishes on a regular basis that the application of the measurement models leads to reliable fair values that fit the risk profile of the assets and liabilities. On 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 income, but amortised over the term of the transactions. The recognition of the 'basisrentelening' product represents an exception, however, with the margin exceeding six basis points being directly recognised in profit or loss. At year-end 2010, the day-one results to be amortised totalled € 251.8 million (2009: € 101.4 million), € 7.7 million of which was taken to the 2010 statement of income as an income item (2009: € 2.6 million).

Measurement differences arising on initial recognition are caused by ongoing changes in market conditions, requiring the Bank to adjust, on a regular basis, the measurement parameters that serve as inputs for the measurement models.

Financial assets

The assets side of the fair value portfolio consists mostly of loans that are granted privately to, or are guaranteed by, Dutch lower-tier governments. Hence, they are not publicly traded. The market is almost entirely served by two parties - which are NWB Bank and BNG - which means there is no liquid secondary market for this type of debt securities. These factors complicate the portfolio's measurement. Based on the credit risk profile, the curve for Dutch government bonds would seem to be the most suitable basis. A small additional credit spread could be used, given that the loans are granted to lower-tier governments or are government-guaranteed.

Besides a credit spread, a liquidity spread must be taken into account. Given that the relevant private loans are not publicly traded, this spread must be estimated in a different manner. The most logical basis would be the spreads the Bank pays. However, a spread the Bank pays cannot very well be split into a credit spread and a liquidity spread. For this reason, the assumption is that, on balance, the spreads applying to the assets side will result in virtually the same level on the measurement curve as those on the liabilities side.

The measurement model for the assets using the method outlined above results in a curve in which the swap curve is used to measure loans for finance periods up to two years. A straight-line spread of 40 basis points at a maximum, based on market prices, is used for finance periods between two and ten years. No spread on the swap curve is used for cash flows from financial assets with maturities above ten years due to the absence of sufficient objective measurement parameters. The same curve was used for measurements in 2009.

Financial liabilities

Information on the level at which new funding is raised is publicly available. The same applies to the Bank's peers. This means available market data can be used to establish a funding curve for measuring liabilities. Use is made of data on new issues from a peer group and data on the small secondary market for our securities. This funding curve (swap curve with spreads) is suitable for calculating the liabilities side of the fair value portfolio.

The detailed application of this system to the liabilities side results in a curve in which the swap curve is used to measure loans for finance periods up to two years. A straight-line spread of 40 basis points at a maximum, based on market prices, is used for finance periods between two and ten years.

For spreads with regard to the Bank's liabilities, market observations are only available up to the ten-year maturity category. Accordingly, the Bank does not use a spread on the cash flows from financial liabilities with maturities above ten years.

The same curve was used for measurements in 2009.

In line with previous years, NWB Bank also used its measurement model to measure the listed debt instruments it had issued.

Derivatives

NWB Bank continues to use the swap curve to measure 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.

Securities

A portion of the financial assets stated at fair value, with a nominal value of € 858.6 million (2009: € 930.7 million), are Residential Mortgage Backed Securities (RMBS). This concerns exclusively the tranches with the highest credit rating from portfolios of securitised Dutch home mortgage loans that are government-guaranteed under the National Mortgage Guarantee (NHG) scheme. Their AAA status was recently confirmed by Fitch. In addition, the Bank's internal analysis does not give it reason to assume that the obligations under the notes will not be met. No trading can be observed in the RMBS notes NWB Bank holds, but pricing for comparable notes gives the Bank reason to assume that their fair value currently does not equal their nominal value. Model calculations based on pricing for comparable notes, taking the step-up moment for the notes into account, have led the Bank to write down € 24.4 million against the RMBS portfolio's nominal value as at 31 December 2010.

Sensitivity

The use of the spreads on the swap curve in 2010 as described in the previous paragraph led to a net unrealised change in the entire fair value portfolio of a loss of € 110.6 million (2009: a loss of € 124.5 million) compared with measurement at the swap curve.

Using a spread of 30 basis points rather than 40 basis points for ten-year periods in 2010 would have led to an additional unrealised gain in the fair value portfolio of € 26.9 million (2009: € 24.4 million) compared with the method chosen. A spread of 50 basis points rather than 40 basis points for ten-year periods would have led to an additional unrealised loss in the fair value portfolio of € 26.9 million (2009: € 24.6 million).

Using a spread on the curve for periods longer than ten years would have led to a net unrealised loss in the entire fair value portfolio of approximately € 14.0 million for each basis point.

Changes in the assumptions used can materially affect the outcomes. The use of models can result in the fair values presented not being a good approximation of the net realisable value. In addition, the assumptions are based on the market conditions prevailing at the reporting date and may therefore not represent a good approximation of future fair values.

Euro swap interest rates applied

NWB Bank has applied the following Euro swap interest rates as a starting point to build up the curve used in its models as a discount rate. As outlined in the previous paragraph, a spread on this interest curve was used in calculating the fair values for a number of categories.

Term	Percentage 31 december 2010	Percentage 31 december 2009
1 day	**0.393**	0.321
1 week	**0.612**	0.377
2 weeks	**0.654**	0.397
1 month	**0.782**	0.453
2 months	**0.885**	0.556
3 months	**1.006**	0.700
6 months	**1.227**	0.994
9 months	**1.372**	1.127
1 year	**1.122**	1.112
2 years	**1.373**	1.701
3 years	**1.694**	2.128
4 years	**2.030**	2.425
5 years	**2.315**	2.669
7 years	**2.741**	3.081
10 years	**3.158**	3.478
15 years	**3.540**	3.865
20 years	**3.616**	3.972
25 years	**3.543**	3.937
30 years	**3.430**	3.862
40 years	**3.289**	3.719
50 years	**3.250**	3.664

The following table sets out the estimated fair value of the financial assets and liabilities and other financial instruments not disclosed on the face of the statement of financial position. A number of items are not included in the table as they do not meet the definition of a financial asset or liability. The total of the fair values disclosed below does not represent the underlying value of NWB Bank and therefore should not be interpreted as such.

	Carrying amount 31-12-2010	**Fair value 31-12-2010**	Carrying amount 31-12-2009	Fair value 31-12-2009
Assets				
Cash	**13,362**	**13,362**	466,723	466,723
Banks	**2,362,616**	**2,362,616**	2,647,387	2,647,387
Loans	**5,816,774**	**6,302,654**	6,249,817	6,579,899
Financial assets stated at fair value	**43,285,380**	**43,285,380**	39,259,996	39,259,996
Available-for-sale financial assets	**861,013**	**861,013**	927,946	927,946
Derivative assets	**4,659,460**	**4,659,460**	2,641,955	2,641,955
Shares	**205**	**205**	205	205
Liabilities				
Banks	**1,286,297**	**1,287,972**	323,235	318,831
Funds entrusted	**1,559,351**	**1,559,878**	2,308,236	2,308,815
Debt securities	**5,443,999**	**5,646,600**	5,755,089	5,847,870
Financial liabilities stated at fair value	**41,943,291**	**41,943,291**	37,833,371	37,833,371
Derivative liabilities	**5,703,615**	**5,703,615**	4,949,699	4,949,699

Financial derivatives

Notional amounts of interest rate swaps	2010	2009
Breakdown according to remaining terms to maturity:		
Up to one year	**13,756,591**	9,712,669
Between one and five years	**23,016,677**	26,862,406
More than five years	**35,681,181**	32,529,216
	72,454,449	69,104,291

Notional amounts of currency swaps	2010	2009
Breakdown according to remaining terms to maturity:		
Up to one year	**8,056,323**	10,415,591
Between one and five years	**9,539,713**	6,529,561
More than five years	**7,325,191**	7,304,692
	24,921,227	24,249,844

The notional amounts of the caps and floors total € 1,268,385 (2009: € 1,176,023) and those of the swaptions amount to € 402,500 (2009: € 397,600). These derivatives are included under the interest rate swaps in the previous table.

34 Risk management

General

Risk management occupies a central position in the organisation. Risk awareness is an important element of the business culture and is embedded in the Bank's robust long-term strategy. The organisation is designed to identify risks at an early stage, analyse them, set sensible limits and monitor those limits. Risk management is characterised by its effective response to changing circumstances and by providing proper parameters for the Bank's operations. It helps the Bank keep its strong financial position and very low cost structure.

Risk governance

The Bank's strategy places strict requirements on risk management and on the set-up and maintenance of adequate internal controls. NWB Bank adopts an organisation-wide approach to risk management and its control. As an important element of its supervisory role, the Supervisory Board, and in particular the Audit and Risk Committee of the Board, evaluates the management of the risks associated with the banking operations. The Managing Board sets the risk management parameters. Within these parameters, the Asset and Liability Committee (ALCO) takes weekly decisions on the risks of the Bank. The Managing Board, treasury, risk management and back office are represented on the ALCO.

In conformity with the Dutch Banking Code, the Bank's risk appetite was formulated under the Managing Board's responsibility and approved by the Supervisory Board. The degree and areas of risk NWB Bank is prepared to accept in realising its strategic objectives were documented. The risk appetite will be reviewed annually and whenever significant events warrant such a review.

The rest of this section describes the internal risk management system for each relevant type of risk. The Bank lends virtually exclusively to public authorities and to companies and institutions related to the public sector. The counterparty risk arising from derivatives and money market transactions is limited as much as possible by applying a limit system, minimum creditworthiness requirements and collateral requirements. On balance, the credit risks are low and consequently, so are the interest margins.

INTEREST RATE RISK

"The possible impact on profit and capital of interest rate fluctuations"

The Bank's exposure to fluctuations in interest rates arises from differences in interest rate and terms between lending and borrowing. The Bank adopts a prudent policy towards these risks. The policy is to manage the interest rate risk bank-wide by closing interest rate swap transactions for both the asset and the liability side of the balance sheet, in which the Bank agrees to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount.

Since the credit crisis, the Bank has been confronted with risks from changes in spreads compared with its benchmark, i.e. the swap interest rates. The higher degree of risk aversion and associated reduced liquidity on capital markets have resulted in the Bank having to raise funding for longer periods at the swap interest rate with a spread, whereas in the past it did so at swap rates. At the same time, the Bank can fund itself for the shorter term (up to six months) at rates that are lower than the swap interest rate. These spread developments lead to changes in the fair value of assets and liabilities and also have an impact on the interest rate result (interest received less interest paid).

The prudent policy, supplemented by a proper management system, is the basis for the calculation, monitoring and management of the interest rate risks. The ALCO decides the size of the risks within the parameters set. To manage risks, a duration analysis, a gap analysis, a short-term interest risk model and a scenario analysis are used. Outcomes from positions adopted are analysed using a profit forecast, interest margin analysis, analysis of the changes in the fair value portfolio and performance analysis. This management information is also important for the decision-making process within the ALCO.

(Partial) duration analysis

The Bank applies what is referred to as the fair value option under IFRS. This means that the Bank has split its portfolios into a portfolio stated at amortised cost and a portfolio stated at fair value with the changes in value being recognised directly in profit or loss. Over the past months, the Bank studied its measurement system for those portfolios, deciding to switch to hedge accounting for new loans and corresponding funding effective 1 January 2011.

The duration of the fair value portfolio is kept within a bandwidth of -0.5 and +0.5 to minimise the impact which changes in the interest rate for this portfolio have on the Bank's results. The duration of this portfolio was -0.12 at 31 December 2009 and -0.16 at 31 December 2010. The average duration for 2010 was 0.26 (2009: 0.18). In 2010, supplementary standards were introduced to improve the management of interest rate risk in this portfolio. They are based on partial duration, which is a measure of the fair value's sensitivity to non-parallel changes in the yield curve. Upon introduction, one of these standards was exceeded. The excess was reduced in 2010.

For the portfolio stated at amortised cost, the maximum permitted duration is 10. In practice, the duration of this portfolio is lower. As at 31 December 2010, the duration of this portfolio was 3.88 (31 December 2009: 6.65). The modified duration of the fair value of equity was 3.72 at 31 December 2010 (31 December 2009: 6.53). The average duration for 2010 was 5.86 (2009: 6.95).

Short-term interest rate risk

In addition to the duration analysis, which provides an insight into the interest rate risk for the total term of the portfolio, NWB Bank also applies a standard for the short term, with the aim of setting boundaries for the interest rate risk run for the next 365 days. In the event of a parallel change in interest rates of one percentage point, the budgeted interest rate result may not fluctuate by more than 10%. As at 31 December 2010, this interest rate sensitivity was 26% (31 December 2009: 7.5%), meaning that the interest rate sensitivity for a parallel change in interest rates exceeds the standard. Lower interest rates have a negative impact on the interest rate result. Given the historically low short-term interest rates, it was decided to allow this excess on a temporary basis.

Gap analysis

An example of a gap analysis according to interest rate period is shown below. The table is based on internal reports. The ALCO uses this analysis to review the positions of the Bank on the yield curve.

(in millions of euros)	Total	3 months or less	3 months - 1 year	1 year - 5 years	More than 5 years
Assets					
Loans and receivables	**9,008**	3,671	824	2,445	2,068
Financial assets stated at fair value through profit or loss	**47,934**	7,280	3,962	15,693	20,999
Fixed-interest derivative assets	**32,665**	4,617	5,588	12,621	9,839
Variable-interest derivative assets	**43,949**	39,892	4,057	-	-
Total assets	**133,556**	55,460	14,431	30,759	32,906
Liabilities					
Banks, funds entrusted and debt securities issued	**8,869**	3,287	1,379	3,004	1,199
Financial liabilities stated at fair value through profit or loss	**19,106**	3,557	3,408	7,449	4,692
Fixed-interest derivative liabilities	**57,941**	5,278	5,699	21,009	25,955
Variable-interest derivative liabilities	**45,874**	40,515	5,359	-	-
Total liabilities	**131,790**	52,637	15,845	31,462	31,846
Total assets less liabilities 2010	**1,766**	2,823	-1,414	-703	1060
Total assets less liabilities 2009	**1,601**	1,144	-854	321	990

The fair value of all instruments is presented. The derivatives include notional amounts to give a clearer picture of interest rate positions. As a result of the above, no direct link can be made to the statement of financial position.

Scenarioanalyse

NWB Bank uses scenario analyses to gain an additional insight into the interest rate risk. A common scenario is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -100 basis points and +100 basis points. Based on the portfolio as at 31 December 2010, a parallel shift of +100 basis points results in a negative change in the fair value of equity of € 65 million (2009: € 105 million). In the event of a parallel shift of -100 basis points, the fair value of equity will increase by € 73 million (2009: € 117 million).

Based on yield curve scenarios, the sensitivity of the Bank to non-parallel changes in the yield curve is assessed and limited where necessary by the ALCO. In addition, scenario analyses are used to assess the sensitivity of the Bank to changes in the spread compared to the swap curve. To manage the spread risk, the Bank has restricted the difference in terms between borrowing and lending. This difference is expressed in the borrowing requirement at any point in the future. In 2008, a standard was set for the borrowing requirement, being a maximum of 25% of total assets at year-end 2008. To meet this standard, there is a transitional period through 2013. This standard controls the impact of an increasing spread not only on the fair value of borrowing and lending, but also on the interest rate result.

LIQUIDITY RISK

"The possible impact on profit and capital of not being able to meet current obligations without incurring unacceptable losses"

The Bank's liquidity position is good. NWB Bank has a AAA credit rating. With this credit rating, under normal circumstances, NWB Bank should always easily be able to cover its current and future liquidity requirements in the market. In case of market stagnation, NWB Bank has sufficient means, amongst others in the form of liquid assets and collateral pledged with De Nederlandsche Bank to repay loans and finance new loans at all times. NWB Bank currently has an ample collateral position at De Nederlandsche Bank. Virtually the entire loans portfolio of NWB Bank is accepted as collateral at De Nederlandsche Bank. The collateral value of the portion of the portfolio pledged as collateral to De Nederlandsche Bank was € 12.8 billion as at 31 December 2010 (€ 13.7 billion as at 31 December 2009). However, NWB Bank did not call on this position. NWB Bank decreased its reliance on commercial paper. As at 31 December 2010, it had € 6.1 billion outstanding in commercial paper (as at 31 December 2009: € 9.1 billion). The ECP programme currently amounts to € 15 billion.

The liquidity position is monitored daily. The aim of liquidity management is to ensure that there are sufficient funds available for the Bank to meet not only foreseen, but also unforeseen financial commitments. The Bank's management is informed daily by means of a liquidity gap analysis, containing differences between the cash flows receivable and payable. Three different standards are used to limit actual short-term liquidity deficits.

As noted above under 'scenario analysis', the Bank also introduced a maximum for the absolute liquidity deficit or borrowing requirement at any point in the future. In 2010, in order to be able to meet this new standard within the transitional period set, the Bank raised € 2.5 billion in long-term funding in excess of its long-term lending.

The statement of financial position according to remaining contractual term, including all future interest rate cash flows and notional amounts of derivatives, before proposed profit appropriation is as follows:

(in millions of euros)	Total	3 months or less	3 months - 1 year	1 year - 5 years	More than 5 years
Assets					
Cash	**13**	13	-	-	-
Financial assets stated at fair value through profit or loss	**56,477**	654	2,109	17,778	35,936
Available-for-sale financial assets					
assets	**1,537**	-	29	116	1,392
Derivative assets	**45,961**	5,487	4,716	13,845	21,913
Bank loans and receivables	**2,362**	-	-	-	2,362
Loans and receivables					
Public-sector loans and receivables	**7,367**	528	472	3,251	3,116
Property and equipment	**7**	-	-	-	7
Intangible assets	**1**	-	-	-	1
Deferred tax assets	**41**	-	18	-	23
Other receivables	**52**	-	52	-	-
Accruals	**120**	-	120	-	-
Total as at 31 December 2010	**113,938**	6,682	7,516	34,990	64,750
Total as at 31 December 2009	**105,853**	8,722	7,122	29,907	60,102
Liabilities					
Banks	**1,304**	1,097	82	33	92
Financial liabilities stated at fair value through profit or loss	**48,566**	6,782	4,921	18,926	17,937
Derivative liabilities	**53,665**	5,368	4,983	15,266	28,048
Funds entrusted	**1,592**	1,577	8	7	-
Debt securities	**6,366**	524	1,115	3,175	1,552
Provisions	**3**	-	-	-	3
Other liabilities	**105**	-	105	-	-
Accruals	**146**	-	146	-	-
Equity	**1,067**	-	-	-	1,067
Total as at 31 December 2010	**112,814**	15,348	11,360	37,407	48,699
Total as at 31 December 2009	**104,781**	19,667	10,156	31,544	43,414

CREDIT RISK

"The possible impact on profit and capital of counterparties not meeting their obligations"

The Bank's policy is geared to an extremely high-quality loans portfolio. NWB Bank's borrowers are mainly public authorities and institutions to which funds are lent under the guarantee of public authorities (including a limited securities portfolio). A relatively small proportion of loans is provided to government-controlled companies without government guarantee (Dutch utility companies). NWB Bank's Articles of Association prohibit lending to the private sector. To a very small extent, the Bank also lends to governments in other Western European countries, applying the same quality standards as for domestic lending. Finally, the Bank enters into agreements with banks for money market transactions and currency and interest rate swaps, which result in counterparty risk.

The Bank applies no credit limits for Dutch public authorities. All other loans are included in the credit assessment system of the Bank. If a credit limit is set for a counterparty, it is adjusted annually, or as often as necessary, in line with the latest developments.

Given the risk-free nature of most of its customers, who are exempt from solvency requirements as a result, the Bank's credit risk is limited, which is also expressed in the robust BIS solvency ratio.

The weighted credit risk (including commitments for loans not yet taken out) to which NWB Bank is subject in accordance with De Nederlandsche Bank standards was as follows on the reporting date:

(in millions of euros)	**Nominal 2010**	**Weighted 2010**	Nominal 2009	Weighted 2009
Central governments	**989**	**-**	1,652	-
Regional governments	**14,811**	**-**	14,032	-
Institutions with delegated government duties	**39,900**	**367**	36,011	299
Development banks	**78**	**-**	93	-
International organisations	**12**	**-**	12	-
Counterparty banks	**3,496**	**345**	5,920	1,234
Securities covered by collateral	**836**	**167**	901	180
Other	**19**	**18**	9	8
Total	**60,141**	**897**	58,630	1,721

Most of NWB Bank's lending comes under the category of 0% weighting, which means that the credit risk is considered to be very limited. The portfolio of RMBS notes comes under the 20% weighting. The counterparty risks and money market lending come under the 20% and 50% weighting categories. The 100% weighting category includes loans to Dutch utility companies.

The table below provides an insight into the breakdown of loans granted by the Bank:

Loans portfolio (in millions of euros)	2010	2009
Water boards	**4,673**	4,195
Municipal authorities	**6,797**	6,645
Other public authorities	**486**	520
Housing corporations	**26,829**	24,070
Healthcare institutions	**3,355**	3,457
Under government guarantee	**130**	748
Joint schemes	**417**	297
Government-controlled public limited liability companies	**234**	162
Other	**251**	78
	43,172	40,172

The Bank has never suffered a loan loss. Owing to the very limited credit risk, no losses are expected. There is therefore no provision for uncollectibility. Both during the year and at the reporting date, arrears were low in monetary terms and of short duration.

To manage the interest rate and currency risks, NWB Bank uses derivatives. To limit the credit risks associated with these derivatives as much as possible, in principle, NWB Bank only enters into transactions with counterparties with a single A rating at a minimum and limits are set to minimise the total exposure from derivatives. The fair values of these derivatives can, depending on the agreements reached with counterparties, be hedged by collateral agreements (also known as CSAs). The Bank's policy is to conclude CSAs with all counterparties and to ensure that netting agreements apply. The creditworthiness of some financial counterparties decreased to such an extent that the positions held were reduced. Where needed, the ISDA agreements with other counterparties were amended. Portfolio management, monitoring and collateral management were stepped further up with respect to individual derivatives portfolios for all counterparties, as well as for the total derivates portfolio. For example, risk concentrations in the swap portfolio are assessed and managed and the portfolio's spread across rating categories and countries monitored more closely. Of the total derivatives portfolio, over 40% of the contracts (measured by notional amounts) was entered into with financial institutions that have at least double A ratings, and over 80% of the contracts (measured by notional amounts) was entered into with institutions based in Europe.

The total fair value exposure from derivatives to financial counterparties at year-end 2010 was € 1,569 million, of which € 1,095 million was covered by collateral pledged to the Bank (2009: € 528 million and € 86 million). The total fair value exposure from derivatives from financial counterparties at year-end 2010 was € 2,613 million, of which € 2,578 million was covered by collateral provided by the Bank (2009: € 2,845 million and € 2,647 million).

The tables below break down counterparty risk by rating category.

Positive replacement values of derivatives

Rating	Notional amount	Fair value	Collateral
AAA	1,647	120	0
AA	13,855	755	423
A	8,777	694	672
Total	24,279	1,569	1,095

Negative replacement values of derivatives

Rating	Notional amount	Fair value	Collateral
AAA	12,191	222	376
AA	12,942	477	424
A	47,963	1,914	1,778
Total	73,096	2,613	2,578

CURRENCY RISK

"The possible impact on profit and capital of changes in exchange rates"

The Bank's policy is to eliminate all currency risks on both loans granted and borrowings. Currency risks arise primarily in respect of funds borrowed by the Bank. NWB Bank borrows significant amounts in foreign currency. The resulting currency risks are fully hedged immediately by entering into currency swaps.

The table below shows the nominal values in millions in local currencies.

				2010				2009
CCY	**Asset**	**Liability**	**Derivatives**	**Total**	Asset	Liability	Derivatives	Total
AUD		**-1,370**	**1,370**	**-**		-1,929	1,929	-
CAD		**-607**	**607**	**-**		-436	436	-
CHF		**-6,033**	**6,033**	**-**		-5,771	5,771	-
GBP		**-2,017**	**2,017**	**-**		-2,549	2,549	-
HKD		**-2,652**	**2,652**	**-**		-3,699	3,699	-
JPY		**-530,079**	**530,079**	**-**		-604,911	604,911	-
NZD		**-34**	**34**	**-**		-242	242	-
USD	**163**	**-16,768**	**16,605**	**-**	177	-14,747	14,570	-
ZAR		**-875**	**875**	**-**		-875	875	-

The assets are recognised in the statement of financial position under Loans and receivables and Available-for-sale financial assets. The liabilities are recognised under the item Financial liabilities stated at fair value through profit or loss.

OPERATIONAL RISK

"The possible impact on profit and capital of inadequate or ineffective internal processes and systems, inadequate or ineffective human actions or external events"

For NWB Bank, the main components of operational risk are losses incurred due to disruptions to the information system, transaction processing and settlement systems, and ineffective procedures, particularly with respect to new services or products, as well as fraudulent and/or unauthorised actions on the part of employees or third parties.

Procedures

As part of the management of operational risks, all important processes are described. The Internal Audit Department checks regularly whether the various procedures are being properly adhered to and whether they are still effective. The process descriptions are updated regularly.

New products or services

In compliance with the Dutch Banking Code, the product approval process was tightened in 2010. The Managing Board is responsible for the effectiveness of the product approval process. This process refers to the procedures the Bank follows in deciding whether it will produce or distribute a certain product, either at its own risk and expense or for the benefit of its clients. This process involves a widely-scoped review in terms of transparency and risk management. No new product is marketed or distributed without a careful consideration of risks by those responsible for risk management and meticulous checks against other relevant aspects. The Internal Audit Department, based on its annual risk assessment, each year verifies the process' design, existence and effectiveness and reports its findings to the Managing Board and the Audit and Risk Committee.

Incidents

Any incidents are reported to the Internal Audit Department, which subsequently investigates the causes and proposes measures where necessary to prevent similar incidents from occurring in the future.

Information systems

To prevent disruptions to the information systems, NWB Bank makes ongoing investments to improve its systems. Key words include security, integration, manageability and continuity. A transparent infrastructure and ICT organisation and optimum security of IT components are in place to limit as far as possible the impact of operational disruptions at NWB Bank. For this purpose, adequate service and maintenance contracts have been concluded for all relevant hardware and software, IT employees receive training and contracts have been entered into with external parties for back-up, recovery and contingency facilities. In emergencies, NWB Bank has access to an external location where it can continue all its activities.

Outsourcing

In 2006, NWB Bank outsourced its back office for customer funds transfers and the IT support operations. This means that certain services are performed outside the core of the business. The direct organisational management has therefore been reduced. At the same time, an additional control mechanism has been set up because NWB Bank continues to be responsible for funds transfers. This control mechanism focuses on a controlled and hence measurable and verifiable service.

Integrity and compliance

NWB Bank attaches great value to its reputation as a solid and respectable Bank for the public sector. For this reason, compliance plays an important role in the Bank's control mechanism. The Bank wishes to ensure that its customers can be completely confident in using its services and secure in the knowledge that their funds are safe.

In compliance with the Dutch Banking Code, the members of the Managing Board each signed the moral and ethical conduct declaration. The principles set out in this declaration apply to all employees. In 2010, they were laid down in more detail in a code of conduct. This code forms part of the employment contracts, and it was posted on both the Intranet and the Bank's website.

NWB Bank transfers some of the compliance-based duties to the Legal Affairs Department and some to Deloitte Bijzonder Onderzoek en Integriteitsadvies N.V. The external compliance officer reports to the Managing Board and the Supervisory Board, while the internal compliance officer reports directly to the Managing Board. These reporting lines confirm the value that the Bank attaches to the internal supervision and the work of both compliance officers. The supervision-based rules and codes of conduct are an important element of the compliance role.

Legal risk

NWB Bank operates on the principle of providing proper and sound financial services. Standard contracts are used whenever possible to limit the legal risks for both NWB Bank and its customers. If needed, external advisers are consulted on legal issues and to review documents relating to these transactions.

Capital management policy

In 2010, NWB Bank complied with all the external and internal capital requirements. NWB Bank seeks to maintain its AAA rating. In November 2010, the ratings agencies, Moody's and Standard & Poor's, confirmed the Bank's AAA rating.

The main capital ratio is calculated in accordance with the standards set by the Financial Services Act (Wet op het financieel toezicht). These standards are based on the international solvency guidelines of the Basel Committee on Banking Supervision. The ratio compares the total capital base (net of proposed dividends) and the total of risk-weighted assets and off-balance sheet items. The minimum required ratio of total capital to risk-weighted assets is 8%.

With effect from 1 January 2008, the Bank switched from the Basel I to the Basel II supervisory regime.

There are three pillars of the Basel II supervisory regime:

Pillar 1: the minimum capital requirements for each category of risk: credit risk, market risk, operational risk and concentration risk;

Pillar 2: internal processes for risk management and setting internal capital requirements: Supervisory Review and Evaluation Process (SREP) and Internal Capital Adequacy Assessment Process (ICAAP), outlier criterion and stress tests;

Pillar 3: publication of financial headline figure requirements: market discipline and transparency.

1) Pillar 1

The standardised method for credit risk uses external ratings linked to certain risk weightings. NWB Bank uses the credit ratings of Moody's and S&P.

The market risk concerns risks in the trading portfolio and currency and commodity risks. NWB Bank does not keep a trading portfolio and can apply an add-on to the credit risk in line with the standardised method for any residual market risk.

When calculating qualifying capital for operational risk, NWB Bank uses the basic indicator approach. Under this approach, 15% of the relevant indicator is taken as a benchmark for the operational risk. The relevant indicator is the three-year average of the total of the annual net interest income and the annual net non-interest income at the end of the financial year. For NWB Bank, the indicator is limited to the net interest income.

The Large Positions rule limits the concentration risk of a bank. NWB Bank's large positions are connected to the swap portfolio. These positions are limited as much as possible by concluding CSAs and applying netting.

Calculation of the Pillar 1 solvency index ratio as at the reporting date:	**2010**	2009
Equity excluding revaluation reserves and profit for the year	**1,051**	1,035
Less: Revaluation reserves	**-6**	-28
Total equity (A)	**1,045**	1,007
Weighted credit risk	**897**	1,721
Weighted operational risk	**209**	237
Total weighted risks (B)	**1,106**	1,958
Solvency index ratio (A/B)	**94.50%**	51.40%

The sharp increase in this ratio was caused mainly by a further tightening of the Bank's counterparty credit risk management and a modification of the calculation method.

2) Pillar 2

The SREP is an evaluation by De Nederlandsche Bank, acting in its capacity of supervisory authority, in which it attempts to establish that a bank has its solvency management and capital adequacy, and therefore also its ICAAP, in order. The outlier criterion sets a maximum interest rate risk that a bank may run on its equity.

Stress tests can be applied under pillar 1 and pillar 2. Using sensitivity analyses or scenarios, banks can gain a better understanding of their risk profile. A best practice for stress tests does not exist yet, which means that each bank will need to develop its own practice. NWB Bank uses stress testing in practice, but is working on further improving the stress testing framework.

3) Pillar 3

Market discipline and transparency in the publication of solvency risks are important elements of the Basel rules for Pillar 3. Central to these publications is information on the solvency and the risk profile of a bank. This report complies with these rules, e.g. by reporting in a transparent manner on the risk management approach adopted, in line with the objectives of IFRS 7, providing disclosures on such matters as its capital structure, capital adequacy, risk management and risk measurement. Pillar 3 disclosure requirements are based on Pillar 1 requirements. This means that they are more prescriptive than those under IFRS 7, which has a "through the eyes of management" approach to risk disclosures. Conversely, Pillar 3 has less detailed presentation requirements than IFRS. NWB Bank has documented its disclosure policies and will publish them on its website. The objective of NWB Bank's disclosure policies is to practice maximum transparency in a practicable manner.

35 Information on related parties

The information on related parties at NWB Bank, as required by IFRS, does not contain any unusual transactions.

For more information on the remuneration of, and loans to, members of the Supervisory Board and the Managing Board, as well as the contribution to Stichting NWB Fonds, please refer to notes 4 and 5.

As at 31 December 2010, an amount of € 5,031 million in loans had been granted to shareholders on market terms (2009: € 4,483 million).

36 Events after the reporting date

No material events occurred between the reporting date and the date of the preparation of the financial statements that had such an impact on the overall presentation of the financial statements that disclosure in this section was considered necessary.

Other information

Independent auditor's report

To the General Meeting of Shareholders of Nederlandse Waterschapsbank N.V.

1.1 Report on the financial statements

We have audited the accompanying financial statements 2010 of Nederlandse Waterschapsbank N.V., The Hague, which comprise the statement of financial position as at 31 December 2010, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

1.1.1 Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

1.1.2 Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

1.13 Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Nederlandse Waterschapsbank N.V. as at 31 December 2010 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

1.2 Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 393(5)(e) and (f) of Book 2 of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Managing Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 392(1)(b) to (h) of Book 2 has been annexed. Further, we report that the Report of the Managing Board, to the extent we can assess, is consistent with the financial statements as required by Section 391(4) of Book 2 of the Dutch Civil Code.

Amstelveen, 23 March 2011
KPMG ACCOUNTANTS N.V.
M. Frikkee RA

Articles of Association provisions governing profit appropriation

As from 2005, the appropriation of profit is governed by Article 21 of the Articles of Association, which reads as follows:

Article 21

1 Profit shall be distributed only insofar as the equity and liabilities of the company exceed the amount of that part of its issued capital that is paid up and called up plus the reserves which must be kept by law or the Articles of Association.

2 The annual profit disclosed in the adopted statement of income shall be allocated as follows:
- a the Managing Board is authorised, subject to the prior approval of the Supervisory Board, to appropriate all or part of the profit to reserves;
- b any balance of profit remaining after the addition to reserves shall be at the disposal of the shareholders in general meeting;
- c to the extent that the shareholders in general meeting do not decide to distribute a dividend for any financial year, such profit shall be added to reserves.

3 The shareholders in general meeting can decide to make a profit distribution chargeable to a distributable reserve only on the basis of a resolution proposed by the Managing Board and approved by the Supervisory Board.

4 To the extent that the company has profits, the Managing Board, subject to the approval of the Supervisory Board, may with due regard for the provisions of paragraphs 1 and 2 of this article resolve to distribute an interim dividend on the basis of an interim statement of the company's financial position as provided for in Section 105(4) of Book 2 of the Dutch Civil Code.

5 On a resolution proposed by the Managing Board with the approval of the Supervisory Board, the shareholders in general meeting may decide to distribute to shareholders a dividend or interim dividend other than in cash chargeable to the part of the profit to which they are entitled.

Proposed profit appropriation

(in thousands of euros)		2010		2009
Profit for the year		**38,389**		56,710
The proposed profit appropriation is as follows:				
Cash dividends on A shares	337%	**19,569**	586%	34,033
Cash dividends on B shares	337%	**3,431**	586%	5,967
		23,000		40,000
Added to the reserves on the approval of the Supervisory Board		**15,389**		16,710
		38,389		56,710

List of shareholders as at 1 January 2011

	Number of A shares of € 115	Number of B shares of € 460
Water Board Aa en Maas	627	301
Water Board Amstel, Gooi en Vecht	281	60
Water Board Brabantse Delta	2,016	483
Water Board Delfland	755	60
Water Board De Dommel	533	360
Water Board Fryslân	3,309	100
Water Board Groot Salland	1,588	195
Water Board Hollandse Delta	1,893	143
Water Board Hollands Noorderkwartier	4,399	204
Water Board Hunze en Aa's	1,915	175
Water Board Noorderzijlvest	1,107	170
Water Board Peel en Maasvallei	1,866	153
Province of Drenthe	15	25
Province of Friesland	24	25
Province of Gelderland	44	50
Province of Limburg	11	20
Province of Noord-Brabant	33	40
Province of Noord-Holland	43	60
Province of Utrecht	43	60
Province of Zeeland	15	20
Province of Zuid-Holland	33	40
Water Board Reest en Wieden	648	37
Water Board Regge en Dinkel	655	300
Water Board Rivierenland	3,968	437
Water Board Roer en Overmaas	535	146
Water Board Rijn en IJssel	5,666	345
Water Board Rijnland	4,858	289
Water Board Scheldestromen	4,380	166
Water Board Schieland en de Krimpenerwaard	610	430
State of the Netherlands	1,208	3,333
Water Board De Stichtse Rijnlanden	224	47
Water Board Vallei en Eem	371	24
Water Board Velt en Vecht	6,503	123
Water Board Veluwe	260	64
Water Board Zuiderzeeland	42	26
	50,478	8,511

Publication details

Editing and coordination of production:
Jolette Kramer, NWB Bank
Heleen van Rooijen, NWB Bank
The KEY Agency, Amsterdam

Interviews:
De Coalitie, Haarlem

Translation:
Ernst & Young Language & Translation Services, The Hague

Photography:
Bert Rietberg, Amsterdam

Design and production:
The KEY Agency, Amsterdam

Printing:
Zwaan Printmedia, Wormerveer

NWB Bank prepared this Annual Report in the Dutch language. The English translation was made for information purposes only. In the event of inconsistencies or differences between the English translation and the original Dutch version of the 2010 Annual Report, the latter will prevail.

FSC
www.fsc.org
MIX
From responsible sources
FSC® C014218

This annual report was printed on FSC-certified paper by an FSC-certified printer. In making these choices, NWB Bank expresses its commitment to sustainability and corporate social responsibility.

Nederlandse Waterschapsbank N.V.
Rooseveltplantsoen 3
2517 KR The Hague

P.O. Box 580
2501 CN The Hague

t +31 (0)70 416 62 66
f +31 (0)70 416 62 62

info@nwbbank.com
www.nwbbank.com

Profile

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. The shares in NWB Bank are held by Dutch water boards (81%), the State of the Netherlands (17%) and Dutch Provinces (2%). 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.

NWB BANK