NWB BANK

HALF-YEAR REPORT 2011

NEDERLANDSE WATERSCHAPSBANK N.V.

Bank of and for the public sector

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

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CONVERSION FROM IFRS-EU TO NL GAAP

NWB Bank prepared its financial statements in accordance with the applicable IFRS-EU rules from 2005 through 2010. Under this regime, it applied the fair value option to a large portion of its loans portfolio. Under that option, designated items in the statement of financial position were to be stated at market value, with changes in market value being taken to profit or loss. The Bank's experience in applying the fair value option over the past years has shown that NWB Bank's profit showed relatively sharp fluctuations year-on-year due to unrealised market value gains and losses. Given that virtually all of the Bank's loans are granted to or guaranteed by the Dutch central government and local authorities, those parties' high creditworthiness causes changes in market value due to changes in interest spreads for liquidity and credit risk to be of an accounting nature. Another important factor is that the Bank usually holds the loans it has granted until they mature. Viewed against this background, we believe the fair value option under IFRS does not suit the nature of the Bank's operations very well. Furthermore, its application makes NWB Bank's financial reporting less comparable with that of other banks, which generally do not apply this accounting principle to their loans portfolios, or to a limited extent.

In order to better reflect NWB Bank's financial reality as a public-sector bank, it has been decided to change the accounting policies and convert to Dutch accounting policies ("NL GAAP") with effect from 1 January 2011. IFRS-EU does not provide for the possibility to cease to apply the fair value option. However, while applying Dutch accounting principles, the Bank wishes to comply with IFRS-EU as much as possible. Hence, it has chosen to state the loans portfolio at amortised cost while applying fair value hedge accounting, by analogy to IAS 39 Financial Instruments: Recognition and Measurement. This means there are only minor differences between applying NL GAAP and applying IFRS-EU as if the Bank chose to apply hedge accounting from 2005. NWB Bank is convinced that, under the circumstances, applying NL GAAP is the best way to ensure that its financial statements give a true and fair view of its financial position and financial results.

Owing to the conversion to NL GAAP, the loans and receivables, as well as the debt securities, are stated at amortised cost while fair value hedge accounting is applied. Under IFRS-EU, a large portion of the Bank's loans has been designated and stated at fair value through profit or loss. The result of the conversion is that (cumulative) changes in market value, including changes in value caused by interest spreads, are eliminated and a value adjustment is made for hedge accounting purposes.

A further consequence of the conversion to NL GAAP is that the interest-bearing securities portfolio has been reclassified. Accordingly, unlisted interest-bearing securities and interest-bearing securities held to maturity are stated at amortised cost under NL GAAP. Listed Interest-bearing securities are stated at fair value with value increases being recognised in equity. In contrast to IFRS-EU, NL GAAP does not allow a negative revaluation reserve to be recognised, which is why impairment below cost is immediately reflected in profit or loss. Conversely, a subsequent recovery of these interest-bearing securities' fair value to cost is similarly recognised in profit or loss. Fair value hedge accounting is applied to the interest-bearing securities not held to maturity.

The tables in Note 10 present the effect of the conversion to NL GAAP discussed above for equity at 1 January 2010 and 31 December 2010, as well as for net profit for the first six months of 2010 and the full year 2010.

Report for the first half of 2011

Following the surge in NWB Bank's lending in 2010, the first half of 2011 saw an expected considerable slump in demand for loans from the public sector, notably from housing corporations. During the first six months of 2011, the Banks total lending amounted to € 2.2 billion, having dwindled by 27% from € 3.0 billion in the first half of 2010. The housing corporations' financing requirements waned chiefly because their future refinancing had been brought forward on a massive scale at the end of last year. This frontloading had been prompted mainly by the EU's Decision on state aid, which took effect on 1 January 2011. Among other aspects, it affects the degree to which government guarantees remain applicable to housing corporations' financing. Despite falling sharply, their share in the Bank's total lending volume remained ahead of that of municipal authorities, water boards, provinces and healthcare institutions. Partly on the back of plummeting capital market rates seen since April, we expect demand for loans to recover slightly in the second half of 2011.

Prompted by the upscaling and professionalisation trends seen among many of its borrowers, the Bank set up a Public Finance Department in the first half of 2011. The business unit will focus exclusively on the Bank's clients, aiming above all to increasingly provide clients with advice about the complex financial issues they face.

Amidst incessant instability and insecurity on financial markets, NWB Bank was once more successful in funding its operations. In the first six months, the Bank raised a total of € 5.1 billion in long-term funding. Owing to the lower demand for loans referred to above, its funding requirement was below that for the same period in 2010, when € 7.1 billion was raised. Long-term funding is realised under the Debt Issuance Programme, which was raised to € 50 billion last year. In the spring, the Bank further diversified its funding internationally by including what is known as a rule 144A in the Debt Issuance Programme, giving it access to US-based institutional investors. This significantly bolsters the Bank's funding position in the international capital market in terms of both access to markets and long-term funding and opportunities for lowering its interest cost. In May, NWB Bank successfully launched its 144A benchmark issue with a three-year maturity, for an amount of US$ 2 billion, and a five-year US$ 1 billion benchmark loan followed suit. Earlier in the year, in January, a ten-year € 1 billion loan had been issued. The Bank's total money market funding under the Euro Commercial Paper Programme amounted to € 11.5 billion in the first six months of 2011. Given its AAA ratings, the Bank could once more capitalise on the flight to quality triggered by the euro crisis, which caused short-term funding to be even lower-priced.

Net profit for the first six months of 2011 was € 35.7 million, down from € 44.9 million for the same period in 2010. The increase in the gain from financial transactions of € 14.9 million was more than offset by a drop in the balance of interest income and interest expense of € 24.1 million. The lower interest result can chiefly be ascribed to transactions aimed at reducing interest rate risk, as well as to higher refinancing cost.

Operating expenses for the first half of 2011 climbed to € 6.7 million, having been € 5.3 million for the first half of 2010. This strong increase, by 27%, was caused mainly by higher advisory fees incurred in connection with the change in accounting policies and an improvement in the Bank's information provision. Employee benefits expenses were up, owing to an expansion of the Bank's workforce.

At 30 June 2011, NWB Bank's equity stood at € 1,147 million (year-end 2010: € 1,135 million), causing the capital ratio (equity expressed as a percentage of total assets) to land at 2.0%. The BIS solvency ratio, which is a measure of the credit risks a bank runs, was up from 99.9% at year-end 2010 to 106.3% at 30 June 2011, making NWB Bank one of the safest banks in the world. The AAA ratings from Moody's and Standard & Poor's reflect the Bank's solid profile. As will be known, the Bank needs to achieve a leverage ratio of 3% on its Tier-1 capital in accordance with the new capital requirements under the Basel III regime effective 2018.

The Bank has prepared a migration plan for conversion to the Basel III regime, which requires banks to maintain stricter solvency, leverage and liquidity standards. The plan sets out a phased implementation process according to the timelines the Basel Committee has prescribed. This year, De Nederlandsche Bank (the Dutch Central Bank) will start monitoring the progress banks make in implementing their migration plans.

Outlook for 2011

In view of the continuing turmoil in the financial markets and substantial money market and capital market interest rate fluctuations, no forecast is made as to the net profit for 2011. The Bank expects interest results, as part of its net profit for the year, to be under pressure in the second half of the year as well.

Responsibility statement

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

The Hague, the Netherlands, 26 August 2011

The Managing Board

R.A. Walkier (Chairman)
Ms L.M.T. van Velden

Statement of income

for the first half of 2011

(in millions of euros)	First half 2011	First half 2010
Interest and similar income	**895.4**	868.6
Interest and similar expense	**872.5**	821.6
Interest	**22.9**	47.0
Results from financial transactions	**32.4**	17.5
Other operating income	**0.0**	0.0
Total operating income	**55.3**	64.5
Employee benefits expense	**2.4**	2.1
Other administrative expenses	**3.7**	2.7
Employee benefits expense and other administrative expenses	**6.1**	4.8
Depreciation, amortisation and value adjustments of tangible and intangible assets	**0.6**	0.5
Other operating expenses	**0.0**	0.0
Total operating expenses	**6.7**	5.3
Profit from ordinary operations before tax	**48.6**	59.2
Tax on profit from ordinary operations	**12.9**	14.3
Net profit	**35.7**	44.9

Balance sheet

as at 30 June 2011

(in millions of euros)	30 June 2011	31 December 2010
Assets		
Cash and cash equivalents	106	13
Banks	1,977	2,363
Loans and receivables	47,332	46,968
Interest-bearing securities	2,389	2,471
Intangible assets	1	1
Tangible fixed assets	7	7
Deferred tax	6	0
Income tax	8	18
Other assets	28	52
Derivative assets	3,607	4,659
Prepayments and accrued income	843	806
Total assets	56,304	57,358
Equity and liabilities		
Banks	1,196	1,515
Funds entrusted	1,166	2,411
Debt securities	47,362	45,786
Other liabilities	136	66
Derivative liabilities	4,741	5,704
Accruals and deferred income	553	738
Provisions	3	3
	55,157	56,223
Paid-up and called-up share capital	7	7
Interest-bearing securities revaluation reserve	0	1
Other revaluation reserves	1	1
Other reserves	1,103	1,035
Profit for the year	36	91
Equity	1,147	1,135
Total equity and liabilities	56,304	57,358
Contingent liabilities	5,966	6,315
Irrevocable commitments	185	199

Statement of comprehensive income

for the first half of 2011

(in millions of euros)	First half 2011	First half 2010
Net changes in the interest-bearing securities revaluation reserve	**-0.4**	0.2
Net changes in other revaluation reserves	**0.0**	0.0
Income tax on income and expense recognised directly in equity	**0.1**	0.0
Income and expense recognised directly in equity	**-0.3**	0.2
Net profit	**35.7**	44.9
Comprehensive income (excluding the cumulative effect of adoption of NL GAAP)	**35.4**	45.1
Net cumulative effect of adoption of NL GAAP (see Note 10)	**-**	37.0
Comprehensive income (including the cumulative effect of adoption of NL GAAP)	**35.4**	82.1

Statement of changes in equity

at 30 June 2011

(in millions of euros)	Paid-up share capital	Interest-bearing securities revaluation reserve	Other revaluation reserves	Other reserves	Profit for the period	Total
As at 31 December 2010 (under NL GAAP) (see Note 10)	7	1	1	1,035	91	1,135
Profit appropriation of previous year				91	-91	
Dividends				-23		-23
Change in value of interest-bearing securities		-1				-1
Profit for the period					36	36
As at 30 June 2011	7	0	1	1,103	36	1,147
As at 31 December 2009	7	-29	1	1,012	57	1,048
Net effect of adoption of NL GAAP (see Note 10)		30		7		37
As at 1 January 2010	7	1	1	1,019	57	1,085
Profit appropriation of previous year				57	-57	
Dividends				-40		-40
Change in value of interest-bearing securities						
Profit for the period					45	45
As at 30 June 2010	7	1	1	1,036	45	1,090

Condensed statement of cash flows

for the first half of 2011

(in millions of euros)	**First half 2011**	First half 2010
Net cash flows used in operating/banking activities	**-2,756**	-2,163
Net cash flows from investing activities	**169**	106
Net cash flows from financing activities	**2,680**	1,678
Cash flow	**93**	-379
Cash flow	**93**	-379
Cash and cash equivalents as at 1 January	**13**	467
Cash and cash equivalents as at 30 June	**106**	88

Cash and cash equivalents as at 30 June 2011 and 30 June 2010 comprise cash, banks and call loans.

Notes to the half-year report

1. Corporate information

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

2. Basis of preparation

2.1 Changes in accounting policies

As of 1 January 2011, NWB Bank prepares its annual financial statements – and hence its half-year figures – in accordance with Title 9 of Book 2 of the Dutch Civil Code and accounting principles generally accepted in the Netherlands (NL GAAP). Until 2010, the Bank applied International Financial Reporting Standards as endorsed by the European Union (IFRS-EU). It is possible for NWB Bank to convert to NL GAAP, since it does not prepare consolidated financial statements.

Upon adoption of IFRS-EU on 1 January 2005, the fair value option was applied to a large portion of the loans portfolio, which, based on current post-credit crisis insights, appears not to suit the nature of the Bank's operations very well. Due to the changes in spreads seen in the markets for loans, the measurement of the loans granted to or guaranteed by the Dutch public authorities resulted in significant unrealised fair value changes recorded since 2008. Over the past few years, NWB Bank's results were substantially impacted by these spreads for liquidity and credit risks. Under its operating model, NWB Bank generally holds loans until they mature, rather than selling them early. Furthermore, the credit risk, and hence the repayment risk, on the loans it grants to the Dutch public authorities is very low. These factors make such unrealised fair value changes less relevant to the determination of the Bank's profit and financial position for external reporting purposes.

IFRS-EU does not allow to cease to apply the fair value option and use fair value hedge accounting instead. Given that it is very common in the banking sector to use hedge accounting, the Bank has decided to convert to NL GAAP while applying hedge accounting to the majority of its loans portfolio. In line with the Bank's present risk management policy and the relevant documentation that is in place, the assumption is that hedge accounting started upon inception of the related positions. In doing so, NWB Bank aims for its financial reporting to better reflect its actual financial situation. It believes a better view will be given of the Bank's financial position and results.

The impact the change in accounting policies has on equity and profit is disclosed in Note 10.

2.2 Summary of significant accounting policies

General

The figures for the first half of 2011 have been prepared in part on a historical cost basis. Certain interest-bearing securities, derivatives and property are stated at fair value. The half-year figures 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 on its transaction date. 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

An asset or liability presented in the balance sheet must be maintained where a transaction does not result in a significant change in the economic reality with respect to such asset or liability. Likewise, such transactions must not result in the reporting of income or expenses.

A financial asset or liability (or, where applicable, part of a financial asset or part of a group of similar financial assets or liabilities) is derecognised where the transaction results in the transfer to a third party of or all or almost all rights to receive economic rewards and all or almost all risks of the asset or liability.

Measurement

Upon initial recognition, financial assets and liabilities are stated at fair value, including transaction costs directly attributable to the asset's or liability's acquisition or issue, with the exception of the transactions recorded at fair value through profit or loss. The transactions recorded in those balance sheet items do not include transactions costs.

After initial recognition, financial assets are classified as loans and receivables, banks, interest-bearing securities or derivative assets. The loans and receivables, interest-bearing securities held to maturity, unlisted interest-bearing securities as well as banks are stated at amortised cost. Other listed interest-bearing securities and derivative assets are stated at fair value.

After initial recognition, financial liabilities are classified as banks, derivative liabilities, funds entrusted or debt securities. Banks, funds entrusted and debt securities are subsequently stated at amortised cost. Derivative liabilities are stated at fair value.

Hedge accounting

The bank hedges most interest rate and foreign exchange risks related to financial assets and liabilities by using financial instruments. In terms of market value, value changes due to interest rate and foreign exchange fluctuations are set off. 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 only uses derivate financial instruments as hedging items, and these are stated at fair value in the balance sheet. Together with value changes in the hedged position related to the covered risk, value changes of the derivatives which are part of the fair value hedge are recorded in profit or loss as results from financial transactions.

NWB Bank applies two types of fair value hedge accounting, which are micro hedging and macro hedging. Micro hedging relates to individual transactions which are included in an economic hedge relationship covering interest rate and foreign exchange risks. It involves a one-on-one relationship between the hedged instrument and the hedged item. Macro hedging relates to a group of transactions that is hedged, for interest rate risk purposes, by using a group of derivative financial instruments. There is no one-on-one relationship between the hedged item and the hedging instrument at an individual level. It is demonstrated at a portfolio level that the derivative financial instruments in question set off the fair value changes caused by interest rate fluctuations.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated to euros 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, and which effectively causes the day-to-day foreign currency-denominated flows of funds to be 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. The results are recorded as results from financial transactions.

Loans and receivables and banks

Loans and receivables and banks are stated at amortised cost using the effective interest method. A provision for doubtful debts is formed in the event of expected uncollectibility.

Interest-bearing securities

Interest-bearing securities are intended primarily to be held for an indefinite period and may be sold to meet liquidity requirements or in response to changes in interest rates. They are initially stated at fair value. For subsequent measurement, interest-bearing securities can be divided into the following three categories.

Interest-bearing securities held to maturity

Purchased loans, receivables and bonds with fixed or determinable payments that NWB Bank has a positive intention and the contractual and economic ability to hold to maturity are stated at amortised cost using the effective interest method.

Other unlisted interest-bearing securities

Other unlisted interest-bearing securities are stated at amortised cost using the effective interest method.

Other listed interest-bearing securities

Other listed interest-bearing securities with public listing are stated at fair value. As long as the value change of an individual interest-bearing security is positive, it is recorded directly in equity until the time of realisation. Once derecognised, the cumulative unrealised gain or loss on an individual asset recorded directly in equity is taken to profit or loss. Any cumulative decrease in value below cost is immediately taken to profit or loss. Any subsequent unrealised increases in value of the relevant interest-bearing security is taken to profit or loss to the extent that it is below amortised cost. Any increase in value above amortised cost is recorded in equity.

If interest-bearing securities are included in a fair value hedge relationship, the effective part of the hedge is recognised in profit and loss, rather than equity. Upon derecognition of financial assets, the cumulative gain or loss recognised in equity is transferred to profit or loss.

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.

Tangible fixed assets

Tangible assets are property and equipment. They are 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. Depreciation on these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

Annual depreciation rates are:

- Building 2½%
- 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.

An asset's residual value, useful life and measurement methods are reviewed and adjusted, if appropriate, on an annual basis.

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.
- 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 as results from financial transactions.

Embedded derivatives are measured separately if they meet the following characteristics:

- There is no close relationship between the economic characteristics and risks of the embedded derivative and those of the host contract.
- The host contract is not carried at fair value through profit or loss.
- A separate instrument having the same characteristics would be classified as a derivative.

Derivatives meeting these characteristics are included in the balance sheet under the host contracts to which they belong and carried at fair value at the time of the contract's inception, with changes in value being taking to profit or loss. Contracts are assessed only when the transaction is effected, unless the terms of a contract change such that expected cash flows are significantly impacted.

Banks, funds entrusted and debt securities

All loans under banks, funds entrusted and debt securities 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.

Employee benefits – defined benefit plan obligations

Pursuant to Dutch Accounting Standard 271 Employee Benefits, NWB Bank applies the IFRS-EU standard on pensions and other post-retirement (IAS 19) in full.

NWB Bank has agreed a defined benefit pension plan with its employees. The plan is funded by the payment of 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.

Offsetting

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.

Income tax

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

Current tax assets and liabilities

Current tax assets and liabilities for the current and prior periods are stated at the amount expected to be recovered from or paid to the tax authorities. The tax payable is calculated on the basis of current tax rates and tax laws.

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 loans and receivables, funds entrusted and based on the bank deposit operations are stated under cash flow from operating/banking activities given the nature of the operations. Changes in interest-bearing securities not held to maturity are also stated under cash flow from operating/banking activities.

Investing activities include the purchase and sale and settlement of interest-bearing securities held to maturity, 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

The Bank's organisation not being geared towards operations in different sectors, NWB Bank's Managing Board does not distinguish between operating segments in its assessment and decision-making about returns and allocation of resources. Accordingly, no segment information is disclosed in this half-year report.

3. Results from financial transactions

This item can be broken down as follows.

	First half 2011	First half 2010
Unrealised changes in value:		
Revaluation of hedged positions recognised in profit or loss	**-1,119,928**	2,161,449
Revaluation of hedging instruments	**1,160,348**	-2,155,690
Unrealised revaluation of interest-bearing securities	**-9,207**	3,007
	31,213	8,766
Realised changes in value:		
Result on sale	**1,191**	8,721
Total	**32,404**	17,487

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. On the assets side of the balance sheet, the fair value of the hedging instruments is € 3,607 million at 30 June 2011 (31 December 2010: € 4,659 million). On the liabilities side, the fair value of the hedging instruments is € 4,741 million at 30 June 2011 (31 December 2010: € 5,704 million).

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

4. Income tax

(in millions of euros)	First half 2011	First half 2010
Profit before income tax	**48.6**	59.2
Tax on the profit for the current financial year at 25.0% (2010: 25.5%)	**12.2**	15.1
Deferred tax resulting from temporary differences	**-**	-0.8
Adjustment in prior-period taxes	**0.7**	-
Income tax expense	**12.9**	14.3
Effective tax rate	**26.5%**	24.2%

Deferred tax

The tax assessments for 2007 and 2008 were definitively established and settled in 2011.

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.

5. 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.

	30 June 2011	31 December 2010
Loans and receivables can be broken down as follows.		
Receivables from or guaranteed by the Dutch government	**44,958,931**	43,189,646
Other loans and receivables from the public sector and others	**401,195**	486,675
Value adjustment for fair value hedge accounting	**1,977,200**	3,298,539
Fair value of separated derivatives embedded in loans and receivables	**-5,373**	-7,359
Total	**47,331,953**	46,967,501

Given the risk profile of NWB Bank's counterparties, a provision for uncollectibility as at 30 June 2011 is not necessary.

6. Interest-bearing securities

This item includes loans embodied in interest-bearing securities as well as other interest-bearing securities that form part of the investment portfolio.

Interest-bearing securities can be broken down as follows:	**30 June 2011**	**31 December 2010**
Interest-bearing securities held to maturity	**871,356**	1,040,416
Other listed interest-bearing securities	**1,224,159**	1,320,336
Other unlisted interest-bearing securities	**275,974**	81,753
Value adjustment for fair value hedge accounting	**17,668**	28,196
Total	**2,389,157**	2,470,701

The other unlisted interest-bearing securities include € 200 million (31 December 2010: nil) in Dutch treasury paper.

7. Debt securities

This item concerns debt securities issued by NWB Bank, which can be broken down as follows:

	30 June 2011	**31 December 2010**
Bond loans	**39,134,526**	39,208,383
Short-term debt securities	**7,724,040**	6,109,899
Value adjustment for fair value hedge accounting	**1,029,672**	1,106,649
Fair value of separated derivatives embedded in debt securities	**-526,099**	-639,144
Total	**47,362,139**	45,785,787

Issue, repurchase and repayment of debt securities

In the first half of 2011, long-term debt securities were issued for an amount of € 5,160 million and repaid for an amount of € 5,230 million. As at 30 June 2011, NWB Bank had repurchased its own debt securities for an amount of € 13 million.

8. Dividend

The proposed dividend presented in the 2010 financial statements for that year was distributed net of dividend tax to the shareholders subsequent to the General Meeting of Shareholders. The total dividend paid in cash in 2011 amounted to € 23 million, representing a dividend of € 390.00 per share.

9. Capital management

The main capital ratio is calculated in accordance with the standards set by the Dutch Financial Markets Supervision 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%. The minimum capital requirements are categorised by risk type (credit, market, operational and concentration risk).

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's.

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 Credit Support Annexes (CSAs) and applying netting.

When restated on the basis of NL GAAP, the ratio at 31 December 2010 shows an increase of 5.4 percentage points compared with the ratio calculated on the basis of IFRS-EU. This can be explained by the fact that the conversion from IFRS-EU to NL GAAP has caused total equity to show a relatively larger increase than the total weighted risk.

Calculation of the solvency index ratio:	**30 June 2011**	**(i) 2010**	**(ii) 2010**
(in millions of euros)			
Equity excluding revaluation reserve	1,146	(iii) 1,110	(iii) 1,051
Plus: Revaluation reserve	1	2	-6
Total equity (A)	1,147	1,112	1,045
Weighted credit risk	876	904	897
Weighted operational risk	203	209	209
Total weighted risk (B)	1,079	1,113	1,106
Solvency index ratio (A/B)	106.3%	99.9%	94.5%

(i) restated on the basis of NL GAAP; (ii) calculated on the basis of IFRS-EU; (iii) excluding dividend payment

10. Conversion from IFRS-EU to NL GAAP

The tables below present the effect of the conversion from IFRS-EU to NL GAAP on equity at 1 January 2010 and 31 December 2010, as well as on net profit for 2010 and for the first six months of 2010.

(in millions of euros)

Reconciliation between equity under IFRS-EU and NL GAAP at 1 January 2010	
Equity under IFRS-EU at 1 January 2010	1,048
Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio	50
Effect on deferred tax	-13
Equity under NL GAAP at 1 January 2010	1,085

Reconciliation between equity under IFRS-EU and NL GAAP at 31 December 2010	
Equity under IFRS-EU at 31 December 2010	1,068
Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio	90
Effect on deferred tax	-23
Equity under NL GAAP at 31 December 2010	1,135

Reconciliation between net profit for 2010 under IFRS-EU and NL GAAP	
Net profit under IFRS-EU for 2010	38
Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio	40
Effect of recognising a negative interest-bearing securities revaluation reserve	30
Effect on deferred tax	-17
Net profit under NL GAAP for 2010	91

Reconciliation between net profit for the first six months of 2010 under IFRS-EU and NL GAAP	
Net profit under IFRS-EU for the first six months of 2010	15
Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio	32
Effect of recognising a negative interest-bearing securities revaluation reserve	8
Effect on deferred tax	-10
Net profit under NL GAAP for the first six months of 2010	45

Notes to the reconciliation of equity and net profit under IFRS-EU and NL GAAP

Under IFRS-EU, the fair value option was used, meaning that what was termed the fair value portfolio was stated at fair value. Under NL GAAP, it is stated at amortised cost, with the exception of the other listed interest-bearing securities, which continue to be stated at fair value.

Under NL GAAP, this portfolio is subject to fair value hedge accounting, with the exception of interest-bearing securities held to maturity.

The instruments in the fair value portfolio that are stated at amortised cost under NL GAAP have been adjusted by eliminating the (cumulative) changes in market value. Where fair value hedge accounting is applied to such instruments, a value adjustment is made to the gain or loss that is attributed to the hedged interest rate risk under hedge accounting.

This resulted in measurement changes of € 50 million in the balance sheet at 1 January 2010 and € 90 million in the balance sheet at 31 December 2010. To a significant extent, these changes arise because liquidity and credit risk spreads are no longer applied. The effects these measurement changes have on deferred tax and the income tax expense are € 13 million and € 23 million, respectively. The effect this change in accounting policy has on net profit for 2010 is € 53 million. Its effect on net profit for the first six months of 2010 is € 30 million.

Furthermore, the conversion to NL GAAP has resulted in reclassification of the interest-bearing securities previously reported under available-for-sale financial assets and financial assets stated at fair value through profit or loss under IFRS-EU. Unlisted interest-bearing securities and interest-bearing securities held to maturity are stated at amortised cost under NL GAAP. Fair value hedge accounting is applied to the interest-bearing securities not held to maturity. In contrast to IFRS-EU, NL GAAP does not allow a negative revaluation reserve to be recognised, which is why impairment below cost is immediately reflected in profit or loss. Conversely, a subsequent recovery of these interest-bearing securities' fair value to cost is similarly recognised in profit or loss.
The upward effect this change in accounting policy has on net profit for 2010 is € 23 million.
Its effect on net profit for the first six months of 2010 is € 6 million.

Changed balance sheet and statement of income formats

The adoption of NL GAAP has led to changes to the formats of the balance sheet and statement of income, given that their formats are prescribed under NL GAAP. The comparative figures as at 31 December 2010 and for the first half of 2010 have been restated accordingly.

The items financial assets stated at fair value through profit or loss, available-for-sale financial assets and financial liabilities stated at fair value through profit or loss have been removed from the balance sheet. Where needed, other items have been renamed.

The instruments previously reported under financial assets stated at fair value through profit or loss have been reclassified, according to their nature, to loans and receivables, interest-bearing securities, and prepayments and accrued income. The instruments previously reported under available-for-sale financial assets have been reclassified to interest-bearing securities, while the instruments previously reported under financial liabilities stated at fair value through profit or loss have been reclassified, according to their nature, to banks, funds entrusted, debt securities, and accruals and deferred income.

The item changes in fair value portfolio, as reported under IFRS-EU, has been renamed results from financial transactions, in accordance with NL GAAP.

Review report

To: the Shareholders and Managing Board of Nederlandse Waterschapsbank N.V.

Introduction

We have reviewed the accompanying (condensed) interim financial information of Nederlandse Waterschapsbank N.V., The Hague, which comprises the balance sheet as at 30 June 2011, the statements of income, comprehensive income, changes in equity and the condensed statement of cash flows for the period of 6 months ended at 30 June 2011, and the notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with the Dutch Guideline for Annual Reporting 394 on Interim Reports. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including Standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying (condensed) interim financial information as at 30 June 2011 is not prepared, in all material respects, in accordance with the Dutch Guideline for Annual Reporting 394 on Interim Reports.

Amstelveen, 26 August 2011

KPMG ACCOUNTANTS N.V.
M. Frikkee RA

Headline figures

(in millions of euros)	**2010[4]**	2010	2009	2008	2007	2006
Balance sheet						
Long-term loans and advances	**43,172**	43,172	40,172	35,934	31,992	28,806
Equity	**1,135**	1,068	1,048	1,047	1,091	1,310
Total assets	**57,358**	57,219	52,422	48,396	38,770	35,172
Risk-weighted assets	**904**	897	1,721	1,561	1,093	1,107
Results						
Interest	**104**	104	92	128	114	125
Operating income	**134**	64	90	26	107	158
Operating expenses	**11**	11	10	10	9	9
Contribution to NWB Fonds	**2**	2	4	4	4	6
Income tax	**30**	13	19	3	23	45
Profit for the year	**91**	38	57	9	71	98
Dividend						
Dividend payment	**23.0**	23.0	40.0	40.0	40.0	40.0
Dividend per share in euros	**390**	390	678	678	678	678
Ratio's (%)						
BIS Solvency ratio[1]	**99.9**	94.5	51.4	53.2	68.1[2]	114.6
Operating expenses/interest ratio	**10.6**	10.6	10.9	7.8	7.9	7.2
Dividend pay-out ratio	**25.3**	59.9	70.2	100.0[3]	56.6	40.9
Capital ratio	**2.0**	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
4) Based on NL GAAP; other years based on IFRS-EU

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A.J.A.M. Segers (until 28 April 2011)
B.J.M. baron van Voorst tot Voorst

Managing Board

R.A. Walkier (Chairman)
Ms L.M.T. van Velden

NWB BANK