NWB BANK

HALF-YEAR REPORT 2016

NEDERLANDSE WATERSCHAPSBANK N.V.

Table of Contents

Headline figures

(amounts in millions of euros)	**30 June 2016**	2015	2014	2013	2012	2011
Balance sheet						
Long-term loans and advances (nominal value)	**48,422**	49,069	49,421	49,595	48,142	45,474
Equity [1]	**1,453**	1,399	1,303	1,256	1,226	1,188
Tier 1 capital [1]	**1,669**	1,594	1,300	1,256	1,226	1,188
Balance sheet total	**104,136**	91,314	88,249	73,006	76,084	67,696
Risk-weighted assets	**2,835**	1,998	1,780	1,245	1,103	1,315
Results						
Net interest income	**100**	180	117	95	107	75
Results from financial transactions	**-13**	-9	-16	-14	-24	38
Operating income	**87**	171	101	81	83	113
Operating expenses	**9**	18	16	16	14	15
Income tax expense	**18**	37	21	16	17	23
Bank tax and resolution charge	**6**	21	15	15	12	-
Net profit	**54**	95	49	34	40	75
Dividend						
Dividend distribution	**0.0**	0.0	0.0	0.0	0.0	0.0
Dividend per share in euros	**0.0**	0.0	0.0	0.0	0.0	0.0
Ratio's (%)						
Tier 1 ratio [1]	**58.9** [2] [3]	79.8 [4]	73.0 [5]	100.9	111.2	90.3
CET 1 ratio [1]	**51.1** [2] [3]	69.8 [4]	73.0 [5]	100.9	111.2	90.3
Operating expenses/interest ratio [6]	**9.2**	9.8	13.8	16.9	13.1	20.0
Dividend pay-out ratio	**0.0**	0.0	0.0	0.0	0.0	0.0
Leverage ratio [1]	**2.0**	2.1	1.8	1.9	-	-
Liquidity Coverage Ratio	**138**	134	144	110	-	-
Net Stable Funding Ratio	**112**	117	107	107	-	-

1) including profit for the financial year
2) Tier 1 ratio 57.0 and CET 1 ratio 49.2 excluding profit for the financial year
3) at year-end 2015 the Bank altered the calculation method for the counterparty risk (counterparty credit risk, CCR) arising from the derivatives transactions which it concludes to hedge interest rate and currency risks. In addition, in the first quarter of 2016 the Bank implemented a different method to calculate the capital requirement for Credit Value Adjustment (CVA).
4) Tier 1 ratio 75.0 and CET 1 ratio 65.1
5) as a consequence of the entry into force of CRR/CRD IV (Capital Requirements Regulation and Directive) per 1 January 2014, the Tier 1 ratio and CET 1 ratio have declined by approximately 25% due to the introduction of the CVA capital charge.
6) excluding resolution levy and bank tax

Report of the Managing Board

Report for the first half of 2016

In the first half of 2016, the signs of a slightly recovering European economy were clouded by uncertainty relating to the outcome of the Brexit referendum on 23 June and reports about weaknesses in a part of the European banking industry. Against this backdrop, the ECB reduced its rates on 16 March, which caused money and capital market interest rates to fall even further. These historically low interest rate levels make it attractive for our customers to optimise their loans portfolios, whereby outstanding high-interest bearing loans are repaid early and replaced by longer-term, fixed-interest rate loans with a lower interest rate. NWB Bank's lending totalled €3.6 billion in the first half of 2016, including maturity extension transactions and spread resets on outstanding loans.

In the past six months, the Bank managed to maintain its market share in providing financing to the Dutch public sector. Almost 50% of total lending by the Bank in the first half of 2016 was to social housing corporations. The water authorities' share rose slightly to 30%, primarily because the maturities of their loans portfolios were extended. In the first half of 2016, the Bank drew down €400 million under the Global Loan provided by the European Investment Bank (EIB) for the purpose of lending to smaller customers and projects which, owing to their size, would not otherwise be eligible for attractive direct EIB funding.

After having entered the Public-Private Partnership (PPP) market by taking over secondary loans and being involved in refinancing such projects in 2015, the Bank strengthened its position in this market in the past six months by financing new PPP transactions.

The Bank also purchased €571 million in NHG RMBS notes (Residential Mortgage Backed Securities, based on residential mortgages that are government-backed under the National Mortgage Guarantee (NHG) scheme), with which the Bank contributes to the financing of government-backed residential mortgages.

To fund its new lending and to refinance maturing debt, the Bank raised a total of €6.5 billion in long-term funding during the first half of 2016, including the first US-dollar water bond (Green Bond), with a size of $1 billion and a maturity of ten years. This covers a significant portion of its total funding requirement for 2016. The Bank is able to raise funding on very favourable terms because of its AAA ratings, which are equal to those of the Dutch State. The fact that the European Central Bank (ECB) purchases the Bank's bonds as part of its bond-buying programme (QE, Quantitative Easing) is another contributing factor, as is the qualification of the Bank's bonds as High Quality Liquid Assets for the Liquidity Coverage Ratio (LCR). The Bank financed itself primarily in euros and to a lesser extent in US-dollars.

In addition, the Bank raised short-term financing at very attractive rates under its commercial paper programmes. The Bank borrowed more than €16 billion under the Euro Commercial Paper (ECP) programme and more than €8 billion under the US Commercial Paper (USCP) programme. These funds were used in part to meet collateral obligations associated with the derivatives portfolio. These obligations increased because of the further decline in interest rates. The Bank uses derivatives to hedge its interest rate- and currency risks.

Net profit for the first half of 2016 amounted to €54.0 million, against €62.7 million for the first six months of 2015. Net profit had risen sharply in the first half of 2015, due in particular to a considerable number of maturity extension transactions. Such transactions also took place in the past six months, albeit to a lesser extent. In addition, the Bank paid its contribution to the European resolution fund (€5.8 million before tax, excluding an irrevocable commitment of €1 million) in May. In 2015, the (then lower) payment was made in the second half of the year.

Net interest income increased by €21.1 million compared with the first half of 2015, while results from financial transactions fell by €26.1 million, due in part to the aforementioned maturity extension transactions. The improved net interest income may be attributed to the higher credit margins achieved over the past few years, partly against the backdrop of the attractive rates for short-term financing. Because the Bank's results depend primarily on interest rate differences between borrowing and lending, the Bank is less sensitive to the absolute interest rate level and therefore by the negative interest rates currently prevailing.

Operating expenses amounted to €9.2 million, up by nearly €1 million against the first half of 2015 (€8.3 million). This increase is primarily attributable to higher regulatory costs and to a small increase in ICT costs.

Balance sheet total as at 30 June 2016 amounted to €104.1 billion. The increase by nearly €13 billion against year-end 2015 is due in particular to the increased market value of the loan portfolio as a result of the further decline in long-term interest rates. This is offset by increased liabilities on account of derivatives relating to the loan portfolio used to hedge the interest rate risk.

Amounting to 138% at the end of June, the Liquidity Coverage Ratio was well above the minimum requirement in force since 1 October 2015 (100% for the Dutch banking sector). The Net Stable Funding Ratio, which is not yet in force, amounted to 112% (the minimum being 100%).

Core equity went up by €54 million in the first half year to €1,453 million. In order to satisfy the expected leverage ratio of 3% as at 1 January 2018, the Bank started issuing hybrid capital in 2015. The initial tranche of €200 million was settled in September 2015. In the first half of 2016, another €70.5 million in hybrid capital was raised, of which €50 million will be paid in the second half of this year. The Bank's Tier 1 capital (including hybrid capital) amounted to €1,669 million as at 30 June. The Bank's Tier 1 ratio at the end of June was 58.9% (including profit for the current financial year). The fall in this ratio against year-end 2015 (79.8%) is primarily attributable to applying a different method of calculating the capital requirement for Credit Value Adjustment (CVA), as already announced in the 2015 Annual Report. CVA is related to the counterparty risk from the derivatives transactions which the Bank enters into to hedge interest rate- and currency risks. The Bank introduced the new method for calculating the capital requirement for counterparty risk already at year-end 2015, in line with the requirements of the European Central Bank (ECB).

The leverage ratio at the end of June 2016 was 2.0%. The slight drop against year-end 2015 is due to the increased balance sheet total caused by the further fall in interest rates. The Bank expects to raise more hybrid capital in the second half of the year, which will cause both the leverage ratio and the Tier 1 ratio to increase.

This year, the Bank was not asked to participate in the stress test of the European Banking Authority (EBA). Yet the Bank did carry out the same stress test at the request of the ECB, as did other significant banks not taking part in the EBA stress test. The stress scenario comprises the systemic risks considered most relevant by the European Systemic Risk Board (ESRB) (i.e.

low level of risk premiums, limited profitability outlook of banks and insurance companies, sustainability of debt position outside the financial sector, stress shadow banking sector). Under this stress scenario, which covers a three-year period based on the situation at year-end 2015, the Bank's Common Equity Tier 1 (CET 1) ratio would fall from 65% at year-end 2015 (excluding profit for the current financial year) to 49%, which means that the ratio would remain well above the minimum requirement (7% as at 1 January 2019, including the capital conservation buffer). The ECB monitored the quality and consistency of the process and assessed the results. The Bank regards the results as confirmation of its financial robustness and its high credit ratings as a bank of and for the Dutch public sector.

Outlook for 2016

Despite the economic uncertainty resulting from the surprising outcome of the Brexit referendum in the United Kingdom, prospects for the Dutch economy are moderately favourable.
This also holds true for the public-sector investment climate. The Bank maintains its forecast that the interest income in 2016 will reach a level comparable with that recorded in 2015.

Responsibility statement

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

The Hague, 26 August 2016

Managing Board

Lidwin van Velden
Frenk van der Vliet

Half-year figures

Statement of income

for the first half of 2016

(in millions of euros)	First half 2016	First half 2015
Interest and similar income	**851.0**	884.4
Interest and similar expense	**750.8**	805.4
Net interest income	**100.2**	79.0
Results from financial transactions	**-13.2**	12.9
Other operating income	**0.0**	0.0
Total operating income	**87.0**	91.9
Staff costs	**3.8**	3.7
Other administrative expenses	**4.2**	3.6
Staff costs and other administrative expenses	**8.0**	7.3
Depreciation, amortisation and value adjustments of intangible and tangible fixed assets	**1.2**	1.0
Contribution to the Resolution Fund	**5.8**	0.0
Total operating expenses	**15.0**	8.3
Profit from ordinary operations before tax	**72.0**	83.6
Tax on profit from ordinary operations	**18.0**	20.9
Net profit	**54.0**	62.7

Balance sheet

as at 30 June 2016

(in millions of euros)	30 June 2016	31 December 2015
Assets		
Cash, cash equivalents and balances with the Central Bank	**7,856**	6,766
Banks	**13,903**	8,908
Loans and receivables	**69,441**	63,576
Interest-bearing securities	**3,999**	3,851
Intangible assets	**2**	3
Tangible fixed assets	**5**	5
Other assets	**21**	0
Derivative assets	**8,903**	8,204
Prepayments and accrued income	**6**	1
Total assets	**104,136**	91,314
Liabilities		
Banks	**2,211**	2,455
Funds entrusted	**6,451**	5,371
Debt securities	**73,024**	67,478
Income tax	**28**	29
Deferred tax liabilities	**17**	15
Other liabilities	**56**	53
Derivative liabilities	**20,657**	14,302
Accruals and deferred income	**2**	1
Provisions	**9**	9
	102,455	89,713
Hybrid capital	**228**	202
Paid-up and called-up share capital	**7**	7
Interest-bearing securities revaluation reserves	**0**	0
Other revaluation reserves	**1**	0
Other reserves	**1,391**	1,297
Profit for the year	**54**	95
Equity	**1,453**	1,399
Total equity and liabilities	**104,136**	91,314
Irrevocable commitments	**3,477**	2,518
Contingent liabilities	**67**	68

Statement of comprehensive income

for the first half of 2016

(in millions of euros)	**First half 2016**	First half 2015
Net changes in the interest-bearing securities revaluation reserves	**0.2**	1.1
Net changes in other revaluation reserves	**0.5**	0.0
Net changes in other reserves caused by changes in value as part of the pension provision	**0.0**	0.3
Income tax on income and expense recognised directly in equity	**-0.2**	-0.3
Income and expense recognised directly in equity	**0.5**	1.1
Net profit	**54.0**	62.7
Comprehensive income	**54.5**	63.8

Statement of changes in equity

for the first half of 2016

(in millions of euros)	Paid-up capital	Interest-bearing securities revaluation reserves	Other revaluation reserves	Other reserves	Profit for the year	Total
As at 31 December 2015	**7**	**0**	**0**	**1,297**	**95**	**1,399**
Profit appropriation of previous year				95	-95	
Change in value of interest-bearing securities		0				0
Revaluation of property, plant and equipment			1			1
Profit for the year					54	54
Rounding				-1		-1
As at 30 June 2016	**7**	**0**	**1**	**1,391**	**54**	**1,453**
As at 31 December 2014	**7**	**0**	**0**	**1,247**	**49**	**1,303**
Profit appropriation of previous year				49	-49	
Change in value of interest-bearing securities		1				1
Changes in value as part of the pension provision				0		0
Profit for the year					63	63
As at 30 June 2015	**7**	**1**	**0**	**1,296**	**63**	**1,367**

Condensed statement of cash flows

for the first half of 2016

(in millions of euros)	**First half 2016**	First half 2015
Net cash flow from operating/banking activities	**-4,587**	-332
Net cash flow from investing activities	**-136**	426
Net cash flow from financing activities	**5,812**	3,760
Cash flow	**1,089**	3,854
Cash flow	**1,089**	3,854
Cash and cash equivalents as at 1 January	**6,767**	502
Cash and cash equivalents as at 30 June	**7,856**	4,356

Cash and cash equivalents as at 30 June 2016 and 30 June 2015 comprise bank balances.

Notes to the half-year figures

1 Corporate information

Nederlandse Waterschapsbank N.V. (NWB Bank) is a public limited liability company established in The Hague, whose shares are owned by Dutch public authorities. NWB Bank's principal aim is to provide financing to the Dutch public sector at the highest possible quality and the lowest possible cost, with the focus on local and regional government bodies (water authorities, municipalities and provincial authorities), institutions guaranteed by or affiliated to government bodies, local and regional government bodies, including social housing corporations and healthcare institutions, and Public-Private Partnership ("PPP") projects.

2 Basis of preparation

2.1 Statement of compliance

NWB Bank prepares its annual financial statements – and hence its half-year figures – in accordance with the statutory requirements listed in Part 9 of Book 2 of the Dutch Civil Code (Burgerlijk Wetboek) and the accounting principles generally accepted in the Netherlands (NL GAAP). NWB Bank comprises of a single entity and prepares separate financial statements.

The half-year figures have been prepared in accordance with the same accounting policies that were applied in respect of the 2015 financial statements. This half-year report does not contain all the information and disclosures required for the full-year financial statements and should therefore be read in conjunction with the financial statements of NWB Bank as at 31 December 2015.

2.2 Summary of significant accounting policies

General

These financial statements have been prepared on the basis of historical cost, with the exception of certain interest-bearing securities, derivatives and property. These are stated at fair value. The matching principle is applied to costs and revenue. 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.

A number of items used in the Financial Statements Formats Decree have been renamed, as these new names better reflect the content, according to NWB Bank.

Continuity

The half-yearly report has been prepared on the basis of the going-concern assumption.

Changes in presentation

Effective from 2016, fees received for early redemption of financial instruments to which hedge accounting is applied are recognised under the item Results from financial transactions. This change has no impact on equity and results.

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 if 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 at its transaction date. A financial asset or financial liability is recognised from the time the company has the right to the rewards 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 all or almost all rights to receive economic benefits 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 assets or liabilities acquisition or issue, with the exception of the transactions recorded at fair value through profit or loss. The transaction costs directly attributable to these balance sheet items are taken directly to profit or loss.

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. If a relevant mid-market rate is available, 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 mid-market rate because there is no listing or active market. NWB Bank calculates the fair value of these 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.

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, other unlisted interest-bearing securities as well as banks are stated at amortised cost. Other listed interest-bearing securities and derivative assets are subsequently 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. NWB Bank only uses derivative financial instruments as hedging items, and these are stated at fair value in the balance sheet. Together with the value changes in the hedged position related to the covered risk, value changes in 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 currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the spot mid-market rates (Amsterdam exchange rates) prevailing at the balance sheet date. The use of mid-market 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 balance sheet 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, reduced where applicable by a provision for uncollectible receivables.

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 two 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 listed interest-bearing securities

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

Other listed interest-bearing securities 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 the interest-bearing security in question is 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 increase in value of the relevant interest-bearing security will be taken to profit or loss if 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. If financial assets are derecognised, the cumulative profit recognised in equity or the cumulative loss is recognised in 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 useful life is considered to be no more than five years and amortisation is straight-line over the useful life. The amortisation period and amortisation method will be reviewed if there is cause to do so.

Tangible fixed assets

Tangible fixed 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 assessed annually and measured regularly based on valuations conducted by independent property 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	2,5%
■ Installation	10%
■ Equipment, furniture and fittings, etc.:	
- furniture, 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 initially recognised at fair value on the date on which a derivative contract is entered into. Any discrepancies between a financial instrument's fair value and the value under the Bank's measurement models are amortised over the instrument's term. Derivatives are also subsequently remeasured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised in profit or loss as results from financial transactions. In 2013, NWB Bank reviewed its method for measuring the fair value of the outstanding swap portfolio, prompted by evolved best practices. Its hedge accounting models were modified for the same reason. Generally accepted measurement models are applied, based on the most appropriate valuation curves, which include the OIS curve. Furthermore, valuation now also includes what is known as a credit and debit valuation adjustment. 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, and
- the host contract is not carried at fair value through profit or loss, and
- 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 taken 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 interest income when the liabilities are derecognised.

Employee benefits – defined benefit plan liabilities

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

NWB Bank has agreed a defined benefit pension plan with its employees. The plan is funded by paying 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 balance sheet date less the fair value of the plan assets. These are adjusted for unrecognised results and costs relating to past years of service.

The pension liabilities are calculated annually by an independent actuary using the projected unit credit method. The calculation is made using the expected return on plan assets.

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.

Net interest income

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.

Results from financial transactions

This item includes the value changes of derivatives, value changes resulting from the application of fair value hedge accounting, and value changes for credit risk (Credit Valuation Adjustment) and the Bank's own credit risk (Debit Valuation Adjustment).

Fees received in relation to early redemptions and maturity extensions for instruments to which fair value hedge accounting is applied, as well as the associated value changes for fair value hedge accounting, are also recognised under this item.

Bank tax

Bank tax is calculated on the basis of prevailing rates and tax legislation and stated at face value.

Contribution to the Resolution Fund

The contribution to the resolution fund is calculated pursuant to current legislation and stated at face value.

Income tax

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

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 legislation.

Deferred tax assets and liabilities

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 balance sheet 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 balance sheet 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, 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 banks and central banks.

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

As the Bank's organisation is not 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 the allocation of resources. Therefore, this half-yearly report does not contain any segmented information.

3 Interest

Interest income consists of interest income on loans and receivables, interest-bearing securities, cash, cash equivalents and balances with the Central Bank, as well as interest-like commission, fees received for early redemption of financial instruments to which no hedge accounting is applied, premiums and discounts. 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, and derivatives, as well as interest-like commission, fees paid for early redemption, 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.

	First half 2016	First half 2015
Interest income on cash, cash equivalents and balances with the Central Bank and on loans and receivables at amortised cost	**834,880**	868,958
Interest income on interest-bearing securities	**9,810**	15,520
Negative interest expense	**6,290**	0
Interest income	**850,980**	884,478
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	**292,441**	373,636
Derivatives (net interest income/expense)	**421,174**	431,801
Negative interest income	**37,146**	0
Interest expense	**750,761**	805,437
Net interest income	**100,219**	79,041

Negative interest income concerns the negative interests on the financial assets cash and cash equivalents, banks, loans and receivables and interest-bearing securities. Negative interest expense concerns the negative interest on the financial liabilities banks, funds entrusted and debt securities.

4 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.

The result on financial transactions can be broken down as follows:	**First half 2016**	First half 2015
Macro hedge accounting	**-25,497**	-14,744
Micro hedge accounting	**568**	505
Result on maturity extensions and early redemptions	**14,873**	26,878
Other results	**-3,124**	301
Total	**-13,180**	12,940

NWB BANK

The result on financial transactions comprised realised and unrealised gains and losses.
The result can be broken down as follows:

	First half 2016	First half 2015
Unrealised changes in value:		
Revaluation of hedged positions recognised in profit or loss	**4,511,182**	-1,532,548
Revaluation of hedging instruments	**-4,393,821**	1,726,667
Unrealised revaluation of interest-bearing securities	**-150**	-1,098
	117,211	193,021
Realised changes in value:		
Realised net loss	**-130,391**	-180,081
Total	**-13,180**	12,940

Among other items, the realised changes in value include premiums and fees received and paid on settlement of derivative contracts, realised results and revaluation results on the purchase of debt securities, fees received for early redemption of financial instruments to which hedge accounting is applied, and commission.

The realised changes in value in 2016 and 2015 relate primarily to the restructuring of the derivatives portfolio and to maturity extensions at the request of our customers, which are non-recurring and have caused results to be shifted in time in accordance with accounting guidelines.

5 Resolution fund contribution

Under the Bank Recovery and Resolution Directive (BRRD), the Bank is required to pay a contribution to the resolution fund.

The contribution for the year 2016 was paid to the Single Resolution Fund and amounted to €6.9 million. Of this amount, €1.1 million was paid in the form of Irrevocable Payment Commitments and €5.8 was charged to the profit for 2016.

6 Income tax

(in millions of euros)	First half 2016	First half 2015
Profit before taxes	**72.0**	83.6
Tax on the profit for the current financial year at 25.0% (2015: 25.0%)	**18.0**	20.9
Effective tax rate	**25.0%**	25.0%

7 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 Dutch public-sector customers, are mostly long-term. This involves the financing of local and regional government bodies (water authorities, municipalities and provincial authorities), institutions guaranteed by or affiliated to government bodies, local and regional government bodies and Public-Private Partnership ('PPP') projects.

Breakdown of loans and receivables by nature of the receivables:

	30 June 2016	31 December 2015
Receivables from or under guarantee from the Dutch government	**51,304,691**	51,550,221
Other loans to and receivables from the public sector and others	**446,731**	492,387
Value adjustment for fair value hedge accounting	**17,689,219**	11,533,153
Total	**69,440,641**	63,575,761

Given the risk profile of NWB Bank's counterparties, a provision for uncollectible receivables as at 30 June 2016 is not necessary.

8 Interest-bearing securities

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

Breakdown of Interest-bearing securities:	**30 June 2016**	31 December 2015
Interest-bearing securities held to maturity	**2,794,191**	2,897,527
Other listed interest-bearing securities	**1,057,586**	887,006
Other unlisted interest-bearing securities	**147,456**	66,631
Total	**3,999,233**	3,851,164

9 Debt securities

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

	30 June 2016	31 December 2015
Bonds	**51,221,394**	51,809,169
Short-term debt securities	**18,555,705**	13,530,413
Value adjustment for fair value hedge accounting	**3,247,269**	2,138,521
Total	**73,024,368**	67,478,103

Issue, repurchase and repayment of debt securities

In the first half of 2016, long-term debt securities were issued for an amount of €6,327 million (first half of 2015: €5,521 million) and repaid for an amount of €5,629 million (first half of 2015: €5,515 million respectively).

10 Dividend

The dividend proposed in the 2015 financial statements and adopted during the General Meeting of Shareholders is nil.

11 Off-balance sheet commitments

On account of imminent regulatory requirements with respect to the leverage ratio, the Bank started raising hybrid capital in 2015. As at 30 June 2016, €50 million in hybrid capital had been raised, that will settle in the second half of 2016.

12 Tier 1 capital ratio

NWB Bank applies the standardised approach (SA) in calculating credit risk-weighted assets. When calculating the capital requirement for operational risk, NWB Bank uses the basic indicator approach. In this context, the capital requirement equals 15% of the relevant indicator, i.e. the average of the sum of the annual gross results of the last three financial years.

Tier 1 ratio as at the reporting date:	**30 June 2016**	31 December 2015
Equity excluding profit for the current financial year	**1,398**	1,304
Intangible fixed assets	**-2**	-3
Prudential filters	**-1**	-1
CET 1 capital	**1,395**	1,300
Additional Tier 1 capital	**220**	200
Tier 1 capital (A)	**1,615**	1,500
Weighted credit risk	**1,606**	1,421
Capital charge under CVA	**1,009**	411
Weighted operational risk	**220**	166
Total weighted risks (B)	**2,835**	1,998
Tier 1 ratio (A/B)	**57%**	75%

If the profit for the current financial year is taken into account, the Bank's Tier 1 capital ratio will be 58.9% at the end of June and 79.8% at year-end 2015.

The Bank's Tier 1 capital ratio at the end of June was 57.0% (excluding profit for the current financial year). The decline in this ratio against year-end 2015 (75.0%) is primarily attributable to a different method of calculating the capital requirement for Credit Value Adjustment (CVA), as already announced in the 2015 Annual Report. CVA is related to the counterparty risk from the derivatives transactions which the Bank concludes to hedge interest rate and currency risks. The Bank already introduced the new method for calculating the capital requirement for counterparty risk at year-end 2015.

Review report

To: The Supervisory Board and Managing Board of Nederlandse Waterschapsbank N.V.

Introduction

We have reviewed the half-year figures of Nederlandse Waterschapsbank N.V. in The Hague, which comprises the balance sheet as at 30 June 2016, the statement of income for the six-month period then ended at 30 June 2016, 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 Dutch 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 Dutch Standards on Auditing 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 interim financial information for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with the Dutch Guideline for Annual Reporting 394 on Interim Reports.

Amsterdam, 26 August 2016

Ernst & Young Accountants LLP
signed by W.J. Smit

Managing Board and Supervisory Board

Managing Board

Lidwin van Velden
Frenk van der Vliet

Supervisory Board

Age Bakker
Maurice Oostendorp
Peter Glas
Petra van Hoeken
Manfred Schepers
Albertine van Vliet-Kuiper

Publication details

Translation, editing and coordination of production:
Andrea Groenewegen, NWB Bank
The KEY Agency, The Hague
Metamorfose Vertalingen

Design and production:
The KEY Agency, The Hague

NWB Bank prepared its half-year report 2016 in the Dutch language. The English translation was made for information purposes only. In the event of inconsistencies or differences between this translation and the original Dutch version of the half-year report 2016, the latter shall prevail.

NWB BANK

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

P.O. Box 580
2501 CN The Hague
The Netherlands

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

info@nwbbank.com
www.nwbbank.com

NWB BANK