NWB BANK

Half-year report

NEDERLANDSE WATERSCHAPSBANK N.V.

2021

CONTENTS

Photo cover: Harry Schuitemaker

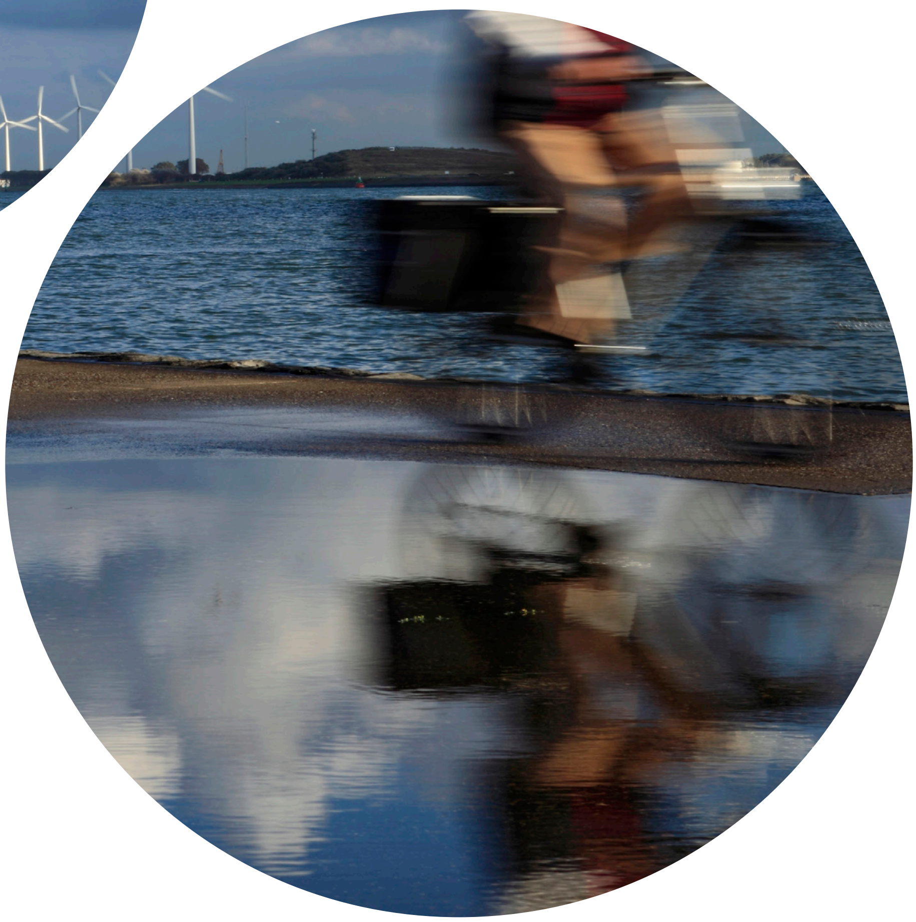
1. KEY FINANCIALS

(in millions of euros)	**30 June 2021**[1]	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Balance sheet					
Long-term loans and advances (nominal value)[2]	50,488	49,844	49,436	47,644	47,840
Equity[3]	1,847	1,782	1,741	1,706	1,628
Tier 1 capital[3]	2,150	2,085	2,050	2,018	1,942
Total assets	108,417	106,882	96,205	83,715	87,123
Risk-weighted assets	4,502	3,833	3,277	2,627	2,680
Results					
Net interest income	138	244	213	234	276
Results from financial transactions	-12	-55	-39	-48	-58
Operating income	126	189	174	186	218
Operating expenses	15	42	27	22	20
Bank tax and resolution levy	6	12[4]	22	27	28
Expected Credit Loss	-	-			
Extraordinary income	-	-	11[5]	-	-
Income tax	38[6]	54	41	37	47
Net profit	67	81	95	100	123
Dividend					
Dividend	-	45.0	55.0	20.0	-
Dividend (in euros per share)	-	762.9	932.4	339.0	-

1) In view of the limited impact on equity and result, the multi-year series have not been adjusted for the change in accounting policy for real estate for own use (2021).
2) loans including interest-bearing securities provided to regional authorities
3) including profit for the financial year less dividend
4) including a restitution of €15 million for the years 2016 to 2018
5) extraordinary income as a result of a change in the pension scheme
6) applying the effective tax burden as a result of the bank levy to be paid in October

(in millions of euros)	**30 June 2021**	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Ratios (in %)					
Tier 1 ratio[1]	47.8[2]	54.4[2]	62.6	76.8	72.5
CET 1 ratio[1]	40.6[3]	46.0[3]	52.8	64.6	60.5
Cost/income ratio[4]	12.2	22.2	15.5	11.8	9.2
Dividend pay-out ratio	-	55.9	58.2	20.1	-
Leverage ratio[5]	8.3[6]	13.5	15.4	-	-
Leverage ratio (not adjusted for promotional assets)[7]	2.7[8]	2.5[8]	2.4	2.6	2.5
Liquidity Coverage Ratio	201	150	204	222	179
Net Stable Funding Ratio	140	122	118	129	126
CSR					
Volume of sustainable bond issuance	1,000	4,531	2,538	2,744	3,480
CO2 emissions equivalents from operating activities p.p. (in tonnes)	0.7	1.5	2.8	3.7	3.9
CO2 emissions equivalents PCAF portfolio coverage (in %)	95[9]	95[10]	95[10]	-	-
CO2 emissions equivalents loan portfolio (in kton)	1,595[9]	1,595[10]	1,730[10]	-	-

1) including profit for the financial year less dividend
2) 46.3 excluding profit for the year (2020: 53.5)
3) 39.1 excluding profit for the year (2020: 45.1)
4) 'cost' concerns the operating expenses and 'income' the operating income
5) including profit for the financial year less dividend, taking into account the calculation for promotional banks according to CRR II as of 27 June 2019
6) 50.5 including the Decision (EU) 2020/1306 of 16 September 2020 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (ECB/2020/ 44))
7) including profit for the financial year less dividend, not taking into account the calculation for promotional banks
8) 2.6 (2020: 2.4) not taken into account Decision (EU) 2020/1306 of 16 September 2020 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (ECB/2020/44))
9) will be updated at the end of the financial year
10) based on 94.5% of the loan portfolio (2019: 95.1%); The 2019 figure is recalculated to the most actual methodology



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REPORT OF THE MANAGING BOARD

2. REPORT OF THE MANAGING BOARD

REPORT FOR THE FIRST HALF OF 2021

- Lending to the public sector increased to €6.1 billion (first half-year 2020: €4.1 billion)
- Sustainable finance portfolio continued to grow through financing of the Climate Fund for Agriculture and the energy-neutral A6 motorway, among others
- Net profit was also higher at €67.0 million (first half-year 2020: €39.4 million)
- Dividend payout for 2019 and 2020 will be resumed as quickly as possible after 30 September

TRENDS AND DEVELOPMENTS

The first six months of 2021 were still largely dominated by the COVID-19 pandemic. There were far-reaching social distancing measures to counteract the pandemic and working from home was recommended. Halfway through the year, the vaccination strategy deployed by the government seemed to be bearing fruit, and the number of infections and hospital admissions dropped significantly. That prompted the government to lift most of the measures. Unfortunately, this decision was soon reversed, partly due to the emergence of the more infectious delta variant of the coronavirus.

In addition to COVID-19, the Netherlands also faced weather extremes. After a cold and wet spring, exceptional rainfall in a short period of time caused extremely high water levels in the early summer in the Netherlands' river area. Limburg even experienced flooding. Unlike our neighbouring countries, there were no fatalities in the Netherlands, but the material damage is going to cost millions, if not billions, of euros. In any case, it is clear that the 'Room for the River' programme has not been a superfluous luxury and that there is still a lot of work to be done in that respect.

The Dutch economy was gaining momentum again when the flooding took place. The relaxation of COVID-19 measures, and the prospect of it, helped the Dutch economy make a strong recovery from the second quarter onwards. Producers and consumers are looking to the future with optimism and, after a contraction in the first quarter, economic growth is expected to exceed 3% for the rest of the year. Unemployment remains limited to about 4%, virtually unchanged from the 2017-2019 average before the crisis.[1] Inflation has risen steadily in recent months and stood at 2.1% and 2% in May and June, respectively, compared with less than 1% at the end of last year. [2]

In the rest of the euro area, the economy also rebounded and inflation increased. The European Central Bank (ECB) has adjusted its inflation target following a strategic review and is now aiming for a symmetrical inflation target of about 2% in the medium term. Until recently, this target was still 'close to, but below 2%'. The ECB is sticking to its historically low interest rate, however, because the higher level of inflation is expected to be temporary. The ECB has also announced that it will continue with the special Pandemic Emergency Purchase Programme (PEPP) until at least March 2022. Furthermore, banks can continue to make use of the TLTRO facility to borrow money at a favourable rate with the aim of passing this benefit on to clients through their lending. In March, European banks attracted €331 billion in funding through this window (the

1) Netherlands Bureau for Economic Policy Analysis (CPB) June 2021 forecast
2) Statistics Netherlands (CBS)

second-highest volume so far) and the ECB[3] provided a total of €2,107 billion in low-cost TLTRO funding.

The Dutch government is continuing to implement various measures to stimulate the economy. Entrepreneurs who have run into financial difficulties due to the coronavirus crisis are entitled to temporary financial arrangements. The latest support package was announced in late May and took effect on 1 July. The government has reserved €6 billion for this support package and, given the economic situation, it is expected to be the last one. The full package of expenditure measures, which runs until September 2021, is estimated by the cabinet to cost about €70 billion.[4] Public debt is continuing to rise, but according to the Dutch Central Bank (De Nederlandsche Bank; DNB), public finances remain under control and within the European debt threshold of 60% of GDP. [5]

In line with its assessment, DNB is expressly calling on the next cabinet to tackle more structural challenges. It explicitly mentions the energy transition and bottlenecks in the housing and labour markets. In terms of the former, local and regional authorities will have to play an important role as well. They want to shape the energy transition from the bottom up through the Regional Energy Strategy (RES). The water authorities are leading by example and continue to pave the way by limiting their energy consumption, generating renewable energy and recovering raw materials from wastewater and sludge. Their aim is to become fully energy-neutral by 2025, partly by using and making available assets such as sewage treatment plants, land and surface water. This is how the water authorities are contributing to the goal of the National Climate Agreement to emit at least 49% less CO_2 by 2030. In addition to their participation in the RES, the municipalities have set up the Gas-Free Districts Programme and the Expertise Centre for Heat.

Housing associations, another important client group of our bank, play a major role in the housing market. They are calling on the next cabinet to create a million new homes in the next 10 years through new construction, restructuring and transformation. In addition to more homes, the existing housing stock also needs to become more sustainable. Housing associations had previously agreed that their housing stock would carry a B energy level on average by 2021. Water companies, another important client group of our bank, have also developed various initiatives to generate their own energy. Already, 100% of the electricity used for the production and distribution of drinking water is purchased as renewable energy.

INCREASED LENDING

As the sustainable water bank, we are keen to partner with our clients to enhance sustainability. To help them in this endeavour, we provide them with appropriate financing at the lowest possible cost. During the first half of 2021, we provided a total of €6.1 billion in financing compared with €4.1 billion in the first half of 2020. This includes interest rate and spread resets for existing loans. As was the case last year, lending to our clients was not affected by the COVID-19 pandemic. On the contrary, some clients are using our financing partly to cushion the financial impact of the pandemic and related measures.

Within the first pillar of our strategy, 'the bank of and for the public water sector', we provided €868 million in financing to water authorities and €62 million to drinking water companies. In the case of the water authorities, a large part (€651 million) went to the Hollands Noorderkwartier water authority, which has managed to secure financing at the current low interest rate. The water authority will use this money for refinancing and for future projects. In line with our strategy, we managed to maintain our positive position in the financing of drinking water companies in the past six months.

The second pillar of our strategy is to be a 'key player in the financing of the Dutch public sector'. This includes the financing of housing associations (€3.71 billion), municipalities (€946 million) and healthcare institutions (€170 million). The third and most recent pillar of our strategy is to be a 'financing partner for enhancing sustainability in the Netherlands'. In the first six months

3) European Central Bank
4) Statistics Netherlands (CBS)
5) The Dutch Central Bank (DNB)

of 2021, we provided a total of €2 million in financing for renewable energy projects with an SDE+ grant. Together with the Nationale Groenfonds and Rabobank, we also launched the Climate Fund for Agriculture. This is the first fund aimed at financing projects that help to achieve the goals of the Ministry of Agriculture, Nature and Food Quality (LNV) under the National Climate Agreement. The focus is on projects that aim to make agriculture more sustainable and preserve biodiversity. In addition, the bank has joined forces with the European Investment Bank (EIB) to refinance the widening of the A6, the first energy-neutral motorway in the Netherlands, which opened in July 2019.

SUSTAINABLE FUNDING

In the past six months, we were again able to fund ourselves well. We raised a total of €3.75 billion in long-term loans in the international capital market to finance new lending and refinance existing loans. We also made use of the ECB's TLTRO facility for an additional amount of €1 billion, after raising €10 billion this way in 2020.

This year, we issued a Water Bond (€500 million with a maturity of 30 years) and a SDG Housing Bond (€500 million with a maturity of 16 years). The proceeds of the Water Bonds (Green Bonds) will be used to finance sustainable projects of the water authorities. The proceeds of the SDG Housing Bonds will be used to finance affordable and sustainable social housing. In total, we have raised more than €17 billion with Environmental, Social & Governance (ESG) bonds since 2014. As such, we are and remain the largest issuer of sustainable bonds in the Netherlands and more than 25% of our total outstanding funding now consists of these sustainable bonds.

In the past half-year, we have raised a total of €21.5 billion in short-term funding under the Euro Commercial Paper (ECP) programme and €80.7 billion under the US Commercial Paper (USCP) programme. We use the short-term funding we raise through these programmes to provide cash loans to customers, to maintain a higher liquidity buffer and to meet the collateral obligations arising from our derivative positions that we use to hedge our interest rate and currency risks.

Our AAA ratings, which are similar to those of the Dutch State, enable us to continue to raise funds on favourable terms. The fact that our bonds are eligible for the ECB asset purchase programme helps, as does the qualification of our bonds as High-Quality Liquid Assets: banks may use our bonds to meet the liquidity requirements under the Liquidity Coverage Ratio (LCR).

HEALTHY PROFIT

Net profit for the first half of 2021 was €67.0 million, compared with €39.4 million in the first half of 2020. Net interest income totalled €138 million, an increase of €32 million compared with the first half of 2020 (H1 2020: €106 million). Just as in 2020, the participation in the TLTRO in the first half of 2021 contributed to the level of profit. The favourable rate of the TLTRO is valid for the initial two years, under certain conditions, but the lending that stands in return, and to which the favourable rate is passed on, has longer maturities. Consequently, the bank's net interest income will shift over time.

The result from financial transactions in the past six months was €12 million negative compared with €31.4 million negative in the first six months of 2020. The anticipated part of this negative result is partly due to an earlier restructuring of the swap portfolio that we implemented several years ago to bring the interest rate risk position more in line with the benchmark return on equity. In addition to this, any results from the benchmark reform transition are also accounted for in the result from financial transactions.

Operating costs in the first six months were €15.4 million and thus practically the same as the operating costs in the first half of 2020 (€15.5 million). The bank has started a program to strengthening the organization to support its digitization and further implement ESG ambitions. The measures we implemented as a result of the COVID-19 pandemic to ensure continuity of service and safeguard the health of employees have been largely maintained. For example, we still rent extra office space so our employees working on our vital processes can be spread across two locations. In the first half of the year, all other staff mostly worked from home.

The tax charge for the first half year amounts to €38.1 million and as a result the effective tax burden is 36%. In addition to the bank tax, a minimum capital requirement for banks and insurers went into effect last year in the Netherlands. This minimum capital requirement, also known as the 'thin cap rule', limits the interest deduction for corporate income tax if a bank's leverage ratio is lower than 9% (2020: 8%). Although as a promotional bank we are in a position to report a leverage ratio of more than 8% since the European Capital Requirement Regulation II (CRR II) came into force in 2019 (see below), this is not yet reflected in the minimum capital requirement due to a two-year transitional period included in CRR II.

The bank's total assets as at 30 June 2021 were slightly higher at €108 billion than at year-end 2020 (€107 billion).

AMPLE CAPITAL AND LIQUIDITY RATIOS

Our bank's equity increased, equal to the net profit, in the past six months to €1,847 million. The Common Equity Tier 1 (CET1) ratio was 40.6% (year-end 2020: 46%). Including the hybrid capital (AT1) raised by the bank in 2015 and 2016, the capital as at 30 June 2021 amounted to €2,150 million, resulting in a Tier 1 ratio of 47.8% (year-end 2020: 54.4%). The decrease in the CET1 ratio and Tier 1 ratio is in line with the bank's strategy of more risk-weighted lending, but is mainly the result of the fact that we have to hold more capital for risks that evolve from our derivatives positions in accordance with the amended regulations.

The leverage ratio (including profit for the current financial year) as at 30 June was 8.3% (2020: 13.5%) and comfortably exceeds the 3% requirement according to CRR II applicable as of 28 June 2021. In calculating this leverage ratio, we have not excluded our deposits with the central bank. The ECB allows a temporary relief in the context of the COVID-19 pandemic, with deposits at central banks being excluded from the calculation. CRR II allows us, as a promotional bank, to exclude our lending to the public sector when calculating the leverage ratio. Without this adjustment, the leverage ratio would be 2.7% (2020: 2.5%).

At 201%, the Liquidity Coverage Ratio at the end of June was well above the minimum requirement of 100% (year-end 2020: 150%). The Net Stable Funding Ratio at the end of June amounted to 140% (minimum 100%, year-end 2020: 122%).

ORGANISATIONAL DEVELOPMENT

Our Annual General Meeting (AGM) took place on 15 April. One of the items on the agenda was the distribution of the dividend for the financial year 2020. Our shareholders have approved a dividend payout of €45 million. In July, the ECB announced that it would again allow banks to pay dividends depending on their individual financial situation. The reason why the payout has been delayed is that since the start of the COVID-19 pandemic, the ECB has urged all institutions under its supervision to postpone the payment of dividends, most recently until 30 September 2021. Within the recommendations, we paid out €8.1 million in dividends for the 2019 financial year to our shareholders in early March. Since the ECB has let go of the recommendation and we have a strong capital position, we will resume the dividend payment for the 2019 and 2020 financial years to our shareholders as soon as possible after September 30. For the financial year 2020, this amounts to €45 million and for the financial year 2019 the remaining amount is approximately €47 million.

Another agenda item of the AGM was the resignation of Maurice Oostendorp as member and deputy chair of the bank's Supervisory Board. He has reached the maximum term of office of eight years. Maurice was a member of the Supervisory Board since 2012, chair of the Audit Committee since 2014 and deputy chair of the Supervisory Board since 2015. His successor will be proposed to the shareholders after the summer in a Extraordinary General Meeting. Frida van den Maagdenberg and Lidwin van Velden were reappointed by the AGM as a member of the Supervisory Board and chair of the Managing Board respectively, both for a period of four years.

The AGM also addressed the fraud incident identified earlier this year. Following the incident, various (internal) investigations took place and additional steps are being taken to strengthen our internal processes.

OUTLOOK FOR 2021

There is still some uncertainty about the further development of the pandemic, but our clients can rely on us when it comes to absorbing the financial consequences of the pandemic and in addressing more structural challenges. Perhaps the economic recovery can be accelerated by frontloading public investment, for example in housing and the energy transition.

We expect net profit in 2021 to be higher than in 2020. Because of the uncertainties caused by the development of the COVID-19 crisis, we are, however, keeping a close eye on developments in spreads in the money and capital markets and the market value of the liquidity portfolio and potential effects as a result of the benchmark reform.

STATEMENT OF THE MANAGING BOARD

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-year 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, 27 August 2021

Managing Board

Lidwin van Velden
Melchior de Bruijne
Frenk van der Vliet

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HALF-YEAR FIGURES

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STATEMENT OF INCOME

for the first half of 2021

(in millions of euros)	Note	First half of 2021	First half of 2020
Interest and similar income		733.1	722.5
Interest and similar expenses		594.7	616.5
Net interest income	1	**138.4**	**106.0**
Results from financial transactions	2	-12.0	-31.4
Other operating income		-	-
Total operating income		**126.4**	**74.6**
Employee benefits expense		5.8	6.6
Other administrative expenses		8.2	7.6
Employee benefits and other expenses		**14.0**	**14.2**
Depreciation, amortisation and value adjustments of tangible and intangible assets		1.4	1.3
Resolution levy	3	6.1	-8.6
Depreciation of receivables and provisions for liabilities included in the balance sheet	13	-0.2	1.1
Total operating expenses		**21.3**	**8.0**
Profit from ordinary operations before tax		**105.1**	**66.6**
Tax on profit from ordinary operations	4	38.1	27.2
Net profit		**67.0**	**39.4**

BALANCE SHEET

as at 30 June 2021

(in millions of euros)	Note	**30 June 2021**	31 December 2020
Assets			
Cash, cash equivalents and deposits at the Central Bank		21,511	9,857
Banks		7,126	9,577
Loans and receivables	5	70,477	76,562
Interest-bearing securities	6	4,772	5,779
Intangible assets		7	6
Tangible assets	7	4	5
Other assets		20	15
Derivative assets	8	4,483	5,064
Prepayments		17	17
Total assets		**108,417**	**106,882**
Liabilities			
Banks	9	12,470	11,493
Funds entrusted		6,606	7,325
Debt securities	10	75,744	70,544
Other liabilities		154	91
Derivative liabilities	11	11,243	15,245
Income tax		3	11
Accruals		5	3
Provisions		16	17
		106,241	**104,729**
Subordinated debt		**329**	**326**
Paid-up and called-up share capital		7	7
Revaluation reserves	12	-	1
Other reserves		1,773	1,738
Unappropriated profit for the year		67	81
Equity		**1,847**	**1,827**
Total liabilities		**108,417**	**106,882**
Irrevocable commitments		6,029	4,306

STATEMENT OF COMPREHENSIVE INCOME

for the first half of 2021

(in millions of euros)	**First half of 2021**	First half of 2020
Changes in the revaluation reserves	-1.0	-
Changes in other reserves (Changes in value as part of the pension provision before income tax)	-	-
Income tax on income and expenses recognised directly in equity	-	-
Income and expenses recognised directly in equity	**-1.0**	**-**
Net profit	67.0	39.4
Comprehensive income	**66.0**	**39.4**

STATEMENT OF CHANGES IN EQUITY

for the first half of 2021

(in millions of euros)	Paid-up share capital	Revaluation reserves	Other reserves	Unappropriated profit for the year	**Total**
As at 31 December 2020	**7**	**1**	**1,737**	**81**	**1,826**
Change in accounting policies property in use by the bank		-1			-1
As at 1 January 2021	**7**	**-**	**1,737**	**81**	**1,825**
Profit appropriation of previous year	-	-	81	-81	-
Dividend	-	-	-45	-	-45
Direct change in the value of equity	-	-	-	-	-
Profit for the year	-	-	-	67	67
As at 30 June 2021	**7**	**-**	**1,773**	**67**	**1,847**
As at 31 December 2019	**7**	**1**	**1,693**	**95**	**1,796**
Change in accounting policies ECL			-1		-1
As at 1 January 2020	**7**	**1**	**1,692**	**95**	**1,795**
Profit appropriation of previous year	-	-	95	-95	-
Dividend	-	-	-55	-	-55
Direct change in the value of equity	-	-	-	-	-
Profit for the year	-	-	-	39	39
As at 30 June 2020	**7**	**1**	**1,732**	**39**	**1,779**

CONDENSED STATEMENT OF CASH FLOWS

for the first half of 2021

(in millions of euros)	**First half of 2021**	First half of 2020
Profit before income tax	105	67
Adjusted for:		
Depreciation, amortisation and value adjustments of tangible and intangible assets	1	1
Unrealised change in the value of assets and liabilities for fair value hedge accounting	36	26
Change in bank loans and receivables not available on demand	2,542	-3,448
Change in public sector loans and receivables	326	-1,113
Change in funds entrusted	-354	492
Change in other assets and liabilities	1,138	-1,056
Net cash flow from operating/banking activities	**3,794**	**-5,031**
Additions to interest-bearing securities	-1,059	-5,585
Sale and redemptions of interest-bearing securities	1,980	3,538
	921	**-2,047**
Additions to tangible assets	-1	-1
Disposals of tangible assets	-	-
	-1	**-1**
Additions to intangible assets	-1	-2
Net cash flow from investing activities	**919**	**-2,050**
Long-term debt securities issued	3,566	9,015
Redemption of long-term debt securities	-3,586	-4,130
Short-term debt securities issued	101,452	54,987
Redemption of short-term debt securities	-95,129	-52,157
Borrowed long-term loans Funds entrusted	185	-
Redemption long-term loans Funds entrusted	-507	-14
Borrowed long-term loans Banks	1,000	5,300
Redemption long-term loans Banks	-32	-28
	6,949	**12,973**
Dividend paid	-8	-
Net cash flow from financing activities	**6,941**	**12,973**
Cash flow	**11,654**	**5,892**

(in millions of euros)	First half of 2021	First half of 2020
Cash and cash equivalents as at 1 January	9,857	8,291
Cash flow	11,654	5,896
Cash and cash equivalents as at 30 June	**21,511**	**14,187**

GENERAL NOTES TO THE HALF-YEAR FIGURES

CORPORATE INFORMATION

The Nederlandse Waterschapsbank N.V. (hereinafter referred to as NWB Bank) is a public limited liability company under Dutch law with its official place of business at Rooseveltplantsoen 3, 2517 KR in The Hague, whose shares are owned by public authorities. The bank is a key player in financing the public sector and a financing partner to enhance sustainability in the Netherlands. It finances water authorities, municipal and provincial authorities as well as other public-sector bodies, such as housing associations, hospitals, educational institutions, water supply companies, Public-Private Partnership (PPP) projects and renewable energy projects.

BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

NWB Bank prepares its annual financial statements – and hence its half-year figures – in accordance with the statutory requirements contained 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 has no participating interests and prepares company financial statements.

The half-year figures have been prepared in accordance with the same accounting policies that were applied in respect of the 2020 financial statements, whereby there has been a change in policy regarding the valuation for property in use by the bank as part of tangible fixed assets in 2021. 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 2020.

COVID-19

As was the case in the previous financial year, the financial impact of the coronavirus outbreak was the cause of uncertainty while this half-year report was prepared. Nevertheless, we believe the going-concern assumption will be unaffected. The bank's strong creditworthiness means it is in a good position to fund itself and thus provide its clients with the necessary credit. The quality of the loan portfolio has remained high. In addition, measures have been taken to safeguard the continuity of the (financial) business processes.

The impact of COVID-19 is further reflected in the update of the macro-economic factors in the Expected Credit Loss section and the ECB's regulations on the distribution of earnings.

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 and derivatives. Interest-bearing securities and derivatives 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.

Many 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-year report has been prepared on the basis of the going-concern assumption.

Changes in accounting policy

As of 1 January 2021, NWB Bank has adjusted the accounting policy for property in use by the bank as part of its tangible assets from current cost to historical cost, which the bank considers appropriate and in line with industry practice. Pursuant to RJ 140, this concerns a change in accounting policy whereby the initial recognition is charged to equity (€1.2 million). This change in accounting policy does not have a significant impact on equity or the result and the comparative figures. The change in accounting policy is explained in more detail in the sections 'Tangible assets', 'Statement of changes in equity' and 'Revaluation reserves'.

Recognition

An asset is recognised if 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.

Financial assets and liabilities (except for the loan principal) are recognised at the transaction date. Accordingly, 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. The loan principal is recognised at the settlement date.

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 continues to be recognised where a transaction does not result in a significant change in the economic reality with respect to such an 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 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 or deducting transaction costs, respectively, 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 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 can be exchanged or a liability settled between knowledgeable, independent parties who are willing to enter into a transaction. If a relevant middle 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 middle rate because there is no listing or active market. NWB Bank calculates the fair value of these other financial instruments using models.

The models use various assumptions relating to the discount rate and the timing and size of the 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.

Provision for uncollectible receivables

Starting 1 January 2020, NWB Bank will use the option to apply the 'expected loss impairment methodology' of IFRS 9. Under this (IFRS 9) impairment method, the previously used 'incurred loss' model has been replaced by an expected credit loss approach. The new impairment model applies to all exposures held under financial assets at amortised cost, interest-bearing securities with value changes stated at fair value recorded directly in equity, and irrevocable commitments and contracts concerning financial guarantees.

Under IFRS 9, these exposures are classified into three groups based on the different stages of credit risk.

Stage 1 includes exposures that show no significant change in credit risk since their initial recognition. A 12-month expected credit loss is recognised for this group, i.e. the expected credit loss based on the probability of default within 12 months of the reporting date.

Stage 2 includes exposures that show a significant increase in credit risk since initial recognition but have not yet defaulted. A lifetime expected credit loss is recognised for these exposures, taking into account any guarantees and received collateral. This concerns the expected shortfalls on the contractual cash flows for the remaining duration of the exposure, discounted at the effective interest rate.

Stage 3 includes exposures that are credit impaired. A lifetime expected credit loss is recognised for these exposures, taking into account any guarantees and received collateral.

Due to exposures included in interest-bearing securities, the bank applies low credit risk exemption available under IFRS 9 to instruments that fall in the category of investment grade.

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 offset. 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 hedged 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: micro-hedging and macro-hedging. Micro-hedging relates to individual transactions that 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. While there is not always a 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 offset the fair value changes of the assets and liabilities in question, respectively, caused by interest rate fluctuations.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are valued in Euros at the middle rates at the balance sheet date (published by the ECB). The use of middle rates is connected to NWB Bank's policy, 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 valued at the prevailing rates 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 currency swaps are valued at the fair value of the instrument ruling on the balance sheet date. The results are recorded as results from financial transactions.

Cash, cash equivalents and deposits at the Central Bank

Cash, cash equivalents and deposits at the Central Bank are stated at amortised cost based on the effective interest method less a provision for uncollectibility.

Loans and receivables, and banks

Loans and receivables and banks are stated at amortised cost using the effective interest method, reduced by a provision for uncollectible receivables. This item mainly comprises collateral held under collateral arrangements related to derivative contracts. This collateral is not at the bank's disposal.

Interest-bearing securities

Interest-bearing securities purchased with fixed or determinable payments, of which NWB Bank firmly intends to hold to maturity, and in respect of which it has the contractual and economic ability to do so, are stated at amortised cost using the effective interest method reduced by a provision for uncollectibility:

Interest-bearing securities held to maturity

Interest-bearing securities purchased with fixed or determinable payments, of which NWB Bank firmly intends to hold to maturity, and in respect of which it has the contractual and economic ability to do so, are stated at amortised cost using the effective interest method reduced by a provision for uncollectibility.

Other interest-bearing securities

Other unlisted interest-bearing securities are stated in line with the securities 'held to maturity'.

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 that was 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 is 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.

Intangible assets

This item includes 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 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 assets

Tangible assets are property and equipment. Starting 1 January 2021, property is stated at cost (see section 'Change in accounting policy'). Until 2020, property was stated a current cost. Property and equipment is stated at acquisition price net of straight line depreciation. Depreciation of these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

The annual depreciation rates are as follows:

Building	2.5%
Fixtures and installations	10%
Equipment, furniture and fittings, etc.:	
• furniture and fittings, etc.	10%
• office equipment	20%
Computer 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, the price of a financial instrument, exchange rates, creditworthiness or other variables (the underlying value).
- No net initial investment or only 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 subsequently remeasured at fair value including accrued interest. 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 under the item results from financial transactions. Generally accepted measurement models are applied, based on the most appropriate valuation curves, including the 'OIS curve'. A credit valuation adjustment and a debt valuation adjustment are also included in the measurement.

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 conditions are included in the balance sheet under the host contracts to which they belong and carried at fair value, 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, debt securities and subordinated debt

All loans under banks, funds entrusted, debt securities and subordinated debt 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.

The bank subscribed once in 2021 and twice in 2020 to ECB funding programmes. Depending on monetary policy, these programmes have specific conditions. One of the programmes is the Targeted Longer-Term Refinancing Operation (TLTRO). The bank accounts for this kind of financing in the same way as it does other kinds of debt, initially at fair value. The subsequent valuation is at amortised cost. The interest charged by the ECB on the financing is assumed to be in line with market conditions and recognised as variable interest in the statement of income using the effective interest method. The terms and conditions of the financing stipulate that if specific targets are met by the bank, a discount will be applied to the interest rate. The feasibility of those targets is a significant estimate. Any changes in the expectation of achieving the target will lead to an adjustment of the effective interest rate with an adjustment of the amortised cost.

Employee benefits - defined benefit plan obligations

Pursuant to Dutch Accounting Standard 271 on Employee Benefits, NWB Bank applies the IFRS-EU standard on pensions and other post-retirement benefits (IAS 19) in full. From 1 January 2020, active employees became part of a defined contribution plan. The pension plan for inactive employees concerns a defined benefit plan funded by premiums paid to an insurance company based on regular actuarial calculations.

A defined contribution pension plan is a scheme in which the employee's pension contribution (rather than the payment) is defined. 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. The defined benefit plan obligations are calculated annually by an independent actuary using the projected unit credit method.

Netting of financial assets and financial liabilities

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 if 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 expenses are recognised in the income statement using 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 in the same period as the profit is recognised. 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 Dutch Tax and Customs Administration. The tax payable is calculated on the basis of current tax rates and tax laws.

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, if it is probable that taxable profit is available against which the deductible temporary differences can be offset, and the deductible temporary differences, 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 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.

Deferred tax assets and liabilities are netted if a right to offset them exists.

Bank tax and resolution levy

The bank tax and resolution levy are accounted for as soon as all conditions of the government levies have been met.

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 assets that 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 banks are stated under cash flows from operating/banking activities, given the nature of the operations.

Investing activities include the purchase and sale and settlement of interest-bearing securities, as well as the purchase and sale of property and equipment. Long-term loans (terms > 1 year) and short-term loans (terms < 1 year) taken out and repaid are classified as a financing activity.

Segment information

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

Significant assumptions and estimation uncertainties

The preparation of the financial statements requires that the Managing Board forms opinions and makes estimates and assumptions that have an impact on the application of accounting policies and the reported value of assets and liabilities and of income and expenses. The estimates and associated assumptions are based on past experience, market information and various other factors considered to be reasonable given the circumstances. The outcomes form the basis for the opinion on most of the carrying amounts of NWB Bank's assets and liabilities that cannot be easily established from other sources. The actual outcomes may differ from these estimates.

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

Opinions formed by the Managing Board that could have a significant impact on the financial statements, and estimates containing a substantial risk of a material adjustment in a subsequent financial year, relate primarily to the measurement of financial assets and financial liabilities stated at fair value, especially to the measurement of derivatives, as well as impairments when applying the expected loss impairment methodology of IFRS 9, as well as to the interest rate of the TLTRO.

Benchmark reform transition

As part of the benchmark reform, in which reference interest rates change, CCPs adjusted the Price Alignment Index (PAI) for centrally cleared interest rate derivatives from Eonia to €STR in July 2020. The PAI is the index used to discount future cash flows to determine the market value of derivatives and collateral. This transition was completed in July 2020. In the period up to 30 June 2021, the bank implemented the transition as a result of the benchmark reform for over one-third of the bilateral agreements and the bank expects to complete the benchmark reform for the remaining bilateral agreements in the second half of the year. The outcomes have been included in the results from financial transactions.

NOTES TO THE STATEMENT OF INCOME

1 NET INTEREST INCOME

Interest income consists of interest income on loans and receivables, interest-bearing securities, cash, cash equivalents and deposits at the Central Bank, as well as interest-like commission, fees received for the 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 expenses on liabilities, whether or not embodied in debt securities, and derivatives, as well as paid 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 of 2021	First half of 2020
Interest income on cash, cash equivalents and deposits at the Central Bank, banks and on loans and receivables at amortised cost	664,921	709,382
Interest income on interest-bearing securities	8,678	1,527
Commission	1,064	610
Negative interest expense	58,481	10,947
Interest income	**733,144**	**722,466**
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	141,796	187,450
Derivatives (net interest income/expense)	339,464	340,332
Negative interest income	113,417	88,644
Interest expense	**594,677**	**616,426**
Net interest income	**138,467**	**106,040**

Negative interest income concerns the negative interest on financial assets: cash and cash equivalents and deposits at the Central Bank, banks, and loans and receivables. Negative interest expense concerns the negative interest on financial liabilities banks, funds entrusted and debt securities, excluding the negative interest for foreign currency hedging instruments. The item Negative interest expenses includes the interest on the participation in the TLTRO. It should be noted that the favorable rate of the TLTRO applies for the first two years, but that the corresponding lending, to which the favorable rate is passed on, has longer maturities. As a result, there is a shift of result over time.

The item 'Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost' reflects the interest expense for these items, from which the negative interest for foreign currency hedging instruments of €106.6 million (2020: €94.66 million) has been deducted.

2 RESULTS FROM FINANCIAL TRANSACTIONS

NWB Bank applies two types of fair value hedge accounting: micro-hedging and macro-hedging. Micro-hedging relates to individual transactions that 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. While there is not always a 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 offset the fair value changes caused by interest rate fluctuations.

The results from financial transactions can be broken down as follows:

	First half of 2021	First half of 2020
Changes in the fair value of derivatives included in macro-hedge accounting	5,530,223	-5,463,781
Revaluation of financial assets and liabilities included in macro-hedge accounting	-5,528,337	5,461,182
Macro-hedge accounting ineffectiveness	**1,886**	**-2,599**
Micro-hedge accounting ineffectiveness	74	-1,349
Total hedge accounting ineffectiveness	**1,960**	**-3,948**
Other changes in the fair value of restructured derivatives included in hedge accounting	-21,953	-21,922
Changes in the fair value of derivatives not included in hedge accounting	1,563	-128
Change in counterparty credit risk (CVA/DVA)	-425	-2,044
Results from maturity extensions and early redemptions	234	2,978
Other fair value changes	6,639	-6,299
Total	**-11,982**	**-31,363**

In the previous financial year, the bank began investing in Green pass-through NHG RMBS (Residential Mortgage-Backed Securities), which has been expanded in 2021. The investments are hedged with interest rate derivatives. The bank uses fair value hedge accounting for this purpose. The result of this is included under the item 'Macro-hedge accounting ineffectiveness'.

The other changes in the fair value of restructured derivatives included in hedge accounting were caused by the restructuring of the derivatives portfolio on several occasions in the past with a view to managing the interest rate risk position. As a result, the restructuring of the derivatives portfolio has a favourable effect on net interest income (due to lower interest expenses).

The other fair value changes include changes in the fair value of financial instruments after the moment of purchase or sale, and entering into or terminating the hedge relationship, premiums and fees received and paid upon the settlement of derivative contracts, realised revaluation gains on the sale of interest-bearing securities and commission.

The fair value of the financial instruments when applying hedge accounting is €24,615 million as at 30 June 2021 (as at December 2020: €31,884 million) on the assets side of the balance sheet, and €15,257 million as at 30 June 2021 (as at 31 December 2020: €21,608 million) on the liabilities side.

NWB Bank borrows significant amounts in foreign currencies. The associated risks are immediately and fully hedged by currency swaps. As a result, the currency risk incurred by NWB Bank is nil.

In 2021, several Eonia-€STR transitions (benchmark reform) in bilateral agreements were implemented based on the Eonia curve -/- 8.5bps. The valuation differences resulting from this are part of the results from financial transactions, and including a negative result (€7.8 million) in relation to the BMR transition.

3 RESOLUTION LEVY

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

The levy for the year 2021 was paid to the Single Resolution Fund and amounted to €7.2 million. Of this amount, €1.1 million was paid in the form of Irrevocable Payment Commitments and €6.1 million was charged to the profit.

As a result of an adjusted method for calculating the base, a refund was granted in 2020 with retroactive effect for the years 2016 to 2018. The total amount to be received in 2020 of €8.6 million consists of €15.4 million restitution and a €6.8 million levy for the financial year 2020. The total amount of €8.6 million has been credited to the result.

As of June 30, 2021, a cumulative amount of €6.1 million has been paid in the form of Irrevocable Payment Commitments (2020: €5.0 million).

4 INCOME TAX

	First half of 2021	First half of 2020
Profit before income tax	105,145	66,624
Income tax at 25.0%	26,286	16,656
Non-deductible expenses relating to AT1 Capital	-	1,169
Minimum capital rule banks (thin cap rule)	7,765	9,354
Non-deductible expenses relating to Bank Tax	4,039	-
Income tax expense	**38,090**	**27,179**
Effective tax rate (%)	36.2%	40.8%

A minimum capital requirement for banks will apply ('thin cap rule') from the financial year 2020 onwards. The thin cap rule limits the interest deduction for corporate income tax if the leverage ratio is lower than 9% (2020: 8%). As a result of the adjustment of the Capital Requirement Regulation (CRR), which entered into force on 28 June 2021, whereby promotional loans are not included in the exposure of the leverage ratio, the bank meets the minimum percentage requirement for the leverage ratio. However, the reference date for the leverage ratio is 31 December preceding the (fiscal) financial year. The inclusion of the adjustment to the CRR as at 28 June 2019 was implemented in the regulatory reports starting 28 June 2021. The bank has therefore recognised an expense under the scheme.

A restriction on the tax deductibility of Additional Tier 1 capital was introduced in 2019. In the second half of 2020, this restriction was removed with retroactive effect. The amount of the adjustment in 2020 was recognised in the second half of 2020.

The effective tax burden is higher than the applicable tax rate of 25%, primarily as a result of the non-deductibility of the bank tax and as a result of the thin cap rule.

NOTES TO THE BALANCE SHEET

5 LOANS AND RECEIVABLES

This item consists of loans and receivables, other than interest-bearing securities, from clients other than banks. The receivables, almost all of which relate to the Dutch public sector, are mostly long-term. Public sector loans and receivables are understood to include those to or guaranteed by Dutch public authorities, and to government-controlled public limited liability companies and other businesses or institutions with delegated government duties.

Breakdown of loans and receivables according to the nature of the receivable:

	30 June 2021	31 December 2020
As at 31 December	**76,562,252**	**69,962,764**
Change in accounting policies ECL	-	-797
As at 1 January	**76,562,252**	**69,961,967**
Newly granted long-term loans	5,521,999	8,717,286
Newly granted short-term loans	2,314,100	6,961,955
Redemptions	-8,151,672	-14,280,872
Value adjustment for fair value hedge accounting	-5,769,418	5,201,860
Expected Credit Loss	226	56
Total	**70,477,487**	**76,562,252**

A provision for uncollectibility went into effect in 2020 based on the Expected Credit Loss method of IFRS 9. This is explained in more detail in the 'Expected Credit Loss' section.

6 INTEREST-BEARING SECURITIES

This item can be broken down as follows:

	30 June 2021	31 December 2020
Interest-bearing securities held to maturity	690,741	1,670,047
Other listed interest-bearing securities	1,000,310	1,023,965
Other unlisted interest-bearing securities	3,080,796	3,085,459
Total	**4,771,847**	**5,779,471**

In the previous financial year, the bank began investing in the senior notes of a Green pass-through NHG RMBS (Residential Mortgage-Backed Securities), in line with the third pillar of its strategy as a 'financing partner to enhance sustainability in the Netherlands'.In the first half of the year, the portfolio was further expanded through a new investment in the senior notes of a comparable NHG RMBS.

The bank would therefore like to help reduce mortgage costs for owners of sustainable homes through a national mortgage guarantee. The €1,069 million total investment (31 December 2020: €950 million) is included under the item 'held to maturity'.

Since 2020, a provision for uncollectibility has been implemented based on the Expected Credit Loss method of IFRS 9. This is explained in more detail in the 'Expected Credit Loss' section.

7 TANGIBLE ASSETS

This item comprises capitalised expenses related to the office building and other equipment. Other equipment primarily concerns inventory, computer equipment, and cars.

Starting 1 January 2021, the bank adjusted the accounting policy for property in use by the bank from current cost to historical cost in order to provide a clearer picture, taking into account customary industry practice. The breakdown below shows the effect of the change in valuation. This change in accounting policy does not have a significant impact on equity or the result and the comparative figures.

The breakdown of this item in 2021 and 2020 is as follows:

	Property in use by the bank	Other equipment	**Total**
Carrying amount as at 31 December 2020	**3,228**	**1,766**	**4,994**
Change in accounting policies property in use by the bank	-1,229	-	-1,229
Carrying amount as at 1 January 2021	**1,999**	**1,766**	**3,765**
Additions 2021	-	724	724
Disposals 2021	-	-2	-2
Depreciation in 2021	-93	-305	-398
Carrying amount as at 30 June 2021	**1,906**	**2,183**	**4,089**
Carrying amount as at 31 December 2019	**3,529**	**1,393**	**4,922**
Additions 2020	73	982	1,055
Disposals 2020	-	-26	-
Depreciation in 2020	-374	-583	-957
Carrying amount as at 31 December 2020	**3,228**	**1,766**	**4,994**

Cumulative amounts as at 30 June 2021:	Property in use by the bank	Other equipment	**Total**
Additions	10,002	11,054	21,056
Depreciation	-8,096	-8,871	-16,967
Carrying amount as at 30 June 2021	**1,906**	**2,183**	**4,089**

Cumulative amounts as at 31 December 2020:	Property in use by the bank	Other equipment	**Total**
Additions	10,002	10,332	20,334
Depreciation	-8,327	-8,566	-16,893
	1,675	**1,766**	**3,441**
Revaluations	1,553	-	1,553
Carrying amount as at 31 December 2020	**3,228**	**1,766**	**4,994**

8 DERIVATIVE ASSETS

This item consists of interest rate swaps and currency swaps, caps, floors and swaptions. These products are carried at fair value, including accrued interest. Generally accepted valuation models are applied, based on the most appropriate valuation curves, which include the OIS curve. In the breakdown of derivatives below for 30 June 2021, derivatives totalling €73,279 (31 December 2020: €69,418) were not included in hedge accounting.

Breakdown by remaining term to maturity of fair values as at 30 June 2021 and 31 December 2020, respectively:

	<3 months	3-12 months	1-5 years	>5 years	**Total**
30 June 2021					
Interest rate swaps	-	41,898	128,902	2,095,934	2,266,734
Currency swaps	101,321	151,322	301,825	932,254	1,486,722
Caps, floors and swaptions	-	-	-	729,685	729,685
Total 30 June 2021	**101,321**	**193,220**	**430,727**	**3,757,873**	**4,483,141**
31 December 2020					
Interest rate swaps	36,320	2,023	228,509	2,251,633	2,518,485
Currency swaps	56,956	19,366	359,070	1,116,738	1,552,130
Caps, floors and swaptions	-	-	-	993,296	993,296
Total 31 December 2020	**93,276**	**21,389**	**587,579**	**4,361,667**	**5,063,911**

9 BANKS

This item comprises liabilities, other than embedded debt securities, due to domestic and foreign banks.

This item can be broken down as follows:

	30 June 2021	31 December 2020
Balances payable on demand	-	-
Loans taken out at banks	11,835,821	10,923,168
Value adjustment for fair value hedge accounting	57,503	99,716
Liabilities under collateral arrangements	555,591	460,209
Exposure Central Clearing	21,065	9,490
Total	**12,469,980**	**11,492,583**

The collateral included in this item concerns collateral held under collateral arrangements related to derivative contracts. The 'Exposure Central Clearing' item comprises the balance of the daily offset of the derivatives against the collateral received or paid with central counterparties.

The 'loans taken out by banks' item includes the bank's participation for the amount of €11.0 billion in targeted longer-term refinancing operations (TLTRO III.4, TLTRO III.5 and TLTRO III.7) implemented by the ECB. The duration of the participation is until 28 June 2023, 27 September 2023 and 27 March 2024, respectively (with the option of interim early redemptions), and is an operation of the Eurosystem to provide funding to banks to support their expansive policy.

The remuneration on the recognised amount under the TLTRO is determined retrospectively and depends on the extent to which the conditions have been met. An important condition is the degree to which the bank provides loans to non-financial corporations and households, other than mortgages. The retroactive interest rate is, depending on whether the conditions have been met, -1% or -0.5% on the amount drawn down, or lower if the ECB were to further lower the deposit interest. The bank expects to meet the conditions as at the reporting date, thereby achieving a percentage of at least -1%.

This means the bank can provide loans at an attractive rate and help keep the costs for the public sector as low as possible.

10 DEBT SECURITIES

This item consists of negotiable interest-bearing debt instruments and can be broken down as follows:

	30 June 2021	31 December 2020
Bonds	60,149,494	59,776,427
Short-term debt securities	12,594,777	5,874,596
Value adjustment for fair value hedge accounting	3,000,045	4,893,353
Total	**75,744,316**	**70,544,376**

Issue, repurchase and repayment of debt securities

In the first half of 2021, bond loans were issued for an amount of €3,566 million (first half of 2020: €9,015 million) and repaid for an amount of €3,586 million (first half of 2020: €4,130 million). In addition, the change in bond loans concerns the currency revaluation and the change allocated to accrued interest.

In the first half of 2021, short-term debt securities were issued for an amount of €101,452 million (first half of 2020: €54,987 million) and repaid for an amount of €95,129 million (first half of 2020: €52,157 million). In addition, the change in short-term debt securities concerns the currency revaluation and the change allocated to accrued interest.

11 DERIVATIVE LIABILITIES

This item consists of interest rate swaps and currency swaps, caps, floors and swaptions. These products are carried at fair value, including accrued interest. Generally accepted valuation models are applied, based on the most appropriate valuation curves, including the OIS curve. In the breakdown of derivatives below for 30 June 2021, derivatives totalling €57,444 (31 December 2020: €160,229) were not included in hedge accounting.

Breakdown by remaining term to maturity of negative fair values as at 30 June 2021 and 31 December 2020:

	<3 months	3-12 months	1-5 years	>5 years	**Total**
30 June 2021					
Interest rate swaps	5,478	13,849	143,979	9,337,609	9,500,915
Currency swaps	94,347	470,269	196,943	252,871	1,014,430
Caps, floors and swaptions	-	-	-	727,633	727,633
Total 30 June 2021	**99,825**	**484,118**	**340,922**	**10,318,113**	**11,242,978**
31 December 2020					
Interest rate swaps	6,717	20,107	156,374	12,510,475	12,693,673
Currency swaps	216,077	545,694	531,160	268,247	1,561,178
Caps, floors and swaptions	92	-	-	989,676	989,768
Total 31 December 2020	**222,886**	**565,801**	**687,534**	**13,768,398**	**15,244,619**

12 REVALUATION RESERVES

Starting 1 January 2021, the bank has adjusted the valuation policy of property in use by the bank. As a result, the other revaluation reserves have been adjusted.

The movements in interest-bearing securities in 2021 and 2020 were as follows:

	Revaluation reserve interest-bearing securities	Other revaluation reserves	**Total**
Movements 2021:			
As at 31 December 2020	**23**	**1,231**	**1,254**
Change in accounting policies property in use by the bank	-	-1,229	-1,229
As at 1 January 2021	**23**	**2**	**25**
Changes in the (unrealised) value of interest-bearing securities	-23	-	-23
As at 30 June 2021	**-**	**2**	**2**
Movements 2020:			
As at 31 December 2019	**4**	**1,231**	**1,235**
Changes in the (unrealised) value of interest-bearing securities	19	-	19
As at 31 December 2020	**23**	**1,231**	**1,254**

OTHER NOTES TO THE HALF-YEAR FIGURES

13 EXPECTED CREDIT LOSS

Starting 1 January 2020, NWB Bank started to use the option to apply the 'expected loss impairment methodology' of IFRS 9. Given the risk profile of NWB Bank's counterparties, until 2020, there was no provision for uncollectible receivables in the incurred loss model. Under IFRS 9, NWB Bank recognises a provision for expected credit loss (ECL) for each customer with a credit facility. A provision is also taken for expected losses on loan commitments and financial guarantee contracts, so-called off-balance sheet positions. It should be noted that the majority of the bank's exposures are guaranteed by the government. As a result, there is limited credit risk.

The ECL methodology used by the bank consists of a scoring and rating model, a macro-economic model, models for Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), and scenarios (macro-economic forecasts). Each of these components is used to calculate the final ECL provision.

The table below depicts the course of the ECL in 2021 and 2020:

(in thousands of euros)	As per 31 December 2020	First half of 2021	Total 30 June 2021
Loans and receivables	-741	227	-514
Interest-bearing securities	-8	-	-8
Total	**-749**	**227**	**-522**

(in thousands of euros)	First application 1 January 2020	2020	Total 31 December 2020
Loans and receivables	-797	56	-741
Interest-bearing securities	-2	-6	-8
Total	**-799**	**50**	**-749**

Broken down by cause, the summary of movements is as follows:

(in thousands of euros)	2021	2020
Total as at 31 December, resp. first application	**-749**	**-799**
Update macro-economic projections	96	-170
Other factors	131	220
Total as at 30 June, 31 December	**-522**	**-749**

The breakdown of ECL recognised in the statement of income for the financial year is as follows:

	From 01-01-2021 to 30-06-2021			
(in thousands of euros)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mutation ECL in P&L				
- Increase through new loans and loans taken over	51	-	-	51
- Decrease through redemptions	-9	-	-	-9
- Changes by creditrisk (net)	-269	-	-	-269
Total	**-227**	**-**	**-**	**-227**

	From 01-01-2020 to 31-12-2020			
(in thousands of euros)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mutation ECL in P&L				
- Increase through new loans and loans taken over	41	-	-	41
- Decrease through redemptions	-8	-	-	-8
- Changes by creditrisk (net)	-83	-	-	-83
Total	**-50**	**-**	**-**	**-50**

The amount arising from the initial application has been charged to other reserves and the amount of the change during the financial year has been charged to the statement of income. In the context of the COVID-19 situation, the bank reassessed and reassimilated the macro-economic parameters in the ECL model. In addition, scores were revised, which on balance was reflected in a decrease in the ECL.

Impairment of loans and receivables and interest-bearing securities

The following table provides a breakdown of the loans and receivables and interest-bearing securities (already provided and still to be provided) to which the ECL model is applied. It should be noted that this analysis does not take any potential guarantees into consideration.

Stage 1: This concerns the performing exposures without an SICR since the starting date.
Stage 2: These are the performing exposures with an SICR since the starting date.
Stage 3: These are the non-performing exposures that are credit-impaired.

as of 30 June 2021 (in thousands of euros)	**Gross carrying amount**	**Performing Stage 1**	**Performing Stage 2**	**Non-Performing Stage 3**
Loans and receivables	69,439,059	66,403,753	2,918,067	117,239
Interest-bearing securities	3,771,544	3,771,544	-	-
Total	**73,210,603**	**70,175,297**	**2,918,067**	**117,239**

as of 31 December 2020 (in thousands of euros)	Gross carrying amount	Performing Stage 1	Performing Stage 2	Non-Performing Stage 3
Loans and receivables	74,198,061	73,727,536	338,398	132,127
Interest-bearing securities	4,755,514	4,755,514	-	-
Total	**78,953,575**	**78,483,050**	**338,398**	**132,127**

An analysis of the housing association, healthcare, and municipal sectors showed a slight increase in the risk profile of these sectors. While this only led to a slight deterioration in credit risk scores and PDs compared to the end of the previous financial year, it did trigger a Significant Increase in Credit Risk (SICR), which caused a significant change from Stage 1 to Stage 2. This change however did not lead to an increase of the ECL because it concerns loans guaranteed by the Dutch government.

At the end of June, the amount of €117 million (31 December 2020: €132.1 million) was classified as credit-impaired. This amount concerns exposures in Stage 3 and relates to exposures to two (31 December 2020: 2) clients. These exposures are guaranteed by the government and will not lead to an ECL provision nor to a write off.

Following is a more detailed explanation of how the stages progress:

Stage 1: 12-month ECL

Stage 1 includes exposures that show no SICR since their initial recognition. A 12-month ECL is recognised for this group, which is the ECL based on the probability that the exposure will default within 12 months of the reporting date. The 12-month ECL is calculated for all individual exposures as a function of the EAD, PD and LGD and including forward-looking (macro-economic) indicators. Essentially, an exposure moves from Stage 1 to Stage 2 if one of the following criteria are met:

1. A loan claim has been outstanding for more than or equal to 30 days (30-day indicator serves as a 'backstop indicator');
2. There is a significant increase in the credit risk. There is an SICR if an internal rating limit has been exceeded;
3. Other qualitative indicators including information from a credit rating agency, the qualification of an exposure as 'forborne performing' or if an exposure is on the internal watch list.

The 12-month ECL is calculated for all individual exposures as a function of the EAD, PD and LGD and including forward-looking (macro-economic) indicators.

Stage 2: life-time ECL (not credit-impaired)

Stage 2 includes exposures that show an SICR since initial recognition but have not defaulted. A lifetime ECL is recognised for these exposures, taking into account any guarantees and received collateral. This concerns the expected shortfalls on the contractual cash flows for the remaining duration of the exposure, discounted at the effective interest rate. The lifetime ECL is calculated for all individual exposures as a function of the EAD, PD and LGD and including forward-looking (macro-economic) indicators.

To determine whether an exposure moves from Stage 2 to Stage 3, the 90-day arrears period acts as a backstop indicator.

An exposure enters Stage 3 when it is credit-impaired. This is the case when:

1. A substantial loan claim has been outstanding for more than 90 days;
2. There is a significant increase in the credit risk. There is an SICR if an internal rating limit has been exceeded;
3. There are other qualitative criteria at play, such as bankruptcy or information from a credit rating agency.

Stage 3: life-time ECL (credit-impaired)

Exposures with payment arrears of 90 days or more fall under Stage 3 and are classified as default. However, Stage 3 also includes exposures that are identified as credit-impaired in line with the internally applied definition of default. Therefore, this also includes exposures that are forborne non-performing. If a client defaults, all exposures to that client are moved to Stage 3 and classified as credit-impaired.

A lifetime ECL is recognised for these exposures, taking into account any guarantees and received collateral. This concerns the expected shortfalls on the contractual cash flows for the remaining duration of the exposure, discounted at the effective interest rate. The lifetime ECL is calculated for all individual exposures as a function of EAD, PD and LGD and including forward-looking (macro-economic) indicators. Subsequently, the lifetime ECL is deducted from the outstanding gross carrying amount on the balance sheet. In other words, an impairment is taken on the exposure.

Migrating back to an earlier ECL stage

If the creditworthiness improves and the exposure no longer meets the above criteria, it can migrate from Stage 2 back to Stage 1 (with a probation period of two years) or from Stage 3 to Stage 2 (with a probation period of one year). This occurs according to the bank's Credit Risk Management Policy and Non-Performing Loan Policy.

Determining an SICR

An SICR exists when the credit rating at the time of reporting has significantly deteriorated compared with the credit rating at origination date. Whether there is an SICR depends on the credit risk classification:

- exposures taken with a credit rating of 7 or better (i.e. ⩽ 7): significant credit risk increase occurs when the credit rating shifts to 8 or worse (i.e. ⩾ 8); and
- exposures taken with a credit rating of 8 or worse (i.e. ⩾ 8): significant credit risk increase when the credit rating shifts a notch. For example, from 8 to 9 is a one-notch shift.

NWB Bank has an internal credit rating scale from 1 to 15. Credit ratings 1 to 7 relate to higher-creditworthy classified exposures (investment grade); ratings 8 to 14 relate to lower-creditworthy classified exposures (non-investment grade); and 15 relates to exposures in default. The internal credit rating scale is calibrated with the help of a reputable external credit rating agency. Internal credit ratings of > 7 are non-investment grade and correspond to a rating of BB+ or worse.

Rating classes

The ECL provision is based on rating classes. The following overview presents the ECL by rating class. The breakdown as at 30 June 2021 is as follows:

30 June 2021:	Stage 1		Stage 2		Stage 3	
Rating Class	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1	6,551,345	7	-	-	-	-
2	2,915,338	-	-	-	-	-
3	8,450,770	-	-	-	-	-
4	5,181,813	42	-	-	-	-
5	10,737,044	112	-	-	-	-
6	10,428,793	112	-	-	-	-
7	14,688,060	192	-	-	-	-
8	4,714,935	57	907,240	-	-	-
9	6,130,273	-	1,884,156	-	-	-
10	235,391	-	93,814	-	-	-
11	141,320	-	21,452	-	-	-
12	215	-	11,405	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	117,239	-
Total	**70,175,297**	**522**	**2,918,067**	**-**	**117,239**	**-**

The breakdown as at 31 December 2020 is as follows:

31 December 2020:	Stage 1		Stage 2		Stage 3	
Rating Class	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1	6,788,748	7	-	-	-	-
2	3,908,794	-	-	-	-	-
3	6,026,507	-	-	-	-	-
4	10,383,511	14	-	-	-	-
5	11,519,569	124	-	-	-	-
6	9,422,698	135	-	-	-	-
7	13,670,913	380	-	-	-	-
8	6,437,142	36	257,676	-	-	-
9	9,480,373	53	35,501	-	-	-
10	581,460	-	18,800	-	-	-
11	263,335	-	25,368	-	-	-
12	-	-	1,052	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	132,127	-
Total	**78,483,050**	**749**	**338,397**	**-**	**132,127**	**-**

Ratings 1 to 7 are classified as 'investment grade', while ratings 8 to 14 are 'non-investment grade'. Finally, rating 15 concerns the classification 'default'. In 2021, the bank further refined the rating method as part of the ECL methodology that will lead to lower sensitivity and a decrease in ECL.

Analysis of the 'performing exposures' according to default date

The following table shows the amounts that have defaulted but have not been received at reporting date, which have not been included in Stage 3.

(in thousands of euros)	30 June 2021	31 December 2020
Less than or equal to 30 days	1,080	3,016
Greater than 30 days and less than or equal to 60 days	-	-
Total	**1,080**	**3,016**

Parameters and assumptions used

The ECL of a financial asset is determined on the basis of 12 months or its entire term, depending on whether there has been a significant increase in credit risk. The total ECL is determined based on the product of the PD, LGD and EAD, discounted to reporting date.

Probability of Default (PD)
The PD is used to determine the ECL and the SICR. The bank has developed PD models for its lending for which no external rating is available, which are largely based on expert judgement combined with accepted mathematical techniques.

Loss Given Default (LGD)
The LGD concerns the loss in case of non-payment. The majority of the bank's portfolio consists of loans guaranteed by the Dutch government.

Exposure at Default (EAD)
The EAD concerns the expected value of the exposure at the moment when the counterparty defaults. This value includes the principal amount, the accrued interest, the premium/discount, the value adjustment resulting from the application of fair value hedge accounting and any amount due but not yet received. The effect of potential early redemptions is minimal and therefore not included in the EAD.

Low credit risk exemption
For exposures included in the item interest-bearing securities, the bank applies a 'low credit risk exemption' (LCRE) in accordance with IFRS 9. IFRS 9 allows the bank to assume, without further analysis, that the credit risk on a financial instrument has not increased significantly since its initial recognition if it is determined that the financial instrument has a low credit risk at the reporting date. An external rating of investment grade is an example of a financial instrument that can be considered low credit risk.

From credit risk score per client to PD rating per exposure
NWB Bank assigns an (internal) credit rating to each exposure at the time of origination. The credit rating is derived from the Master Scale of the ECL model. An important input for the ECL model is the Credit Risk Score (CRS) established by the Risk Management department. The bank assigns a CRS to each client to calculate the ECL per exposure. CRSs have a scale of best to worst scores ranging from 1 to 21. The internal credit ratings from the Master Scale are used in accordance with IFRS guidelines. The Master Scale links CRSs with default rates and the final credit rating. The Master Scale developed by the bank is calibrated with the help of a reputable external credit rating agency. The CRS is reviewed periodically in accordance with the credit management cycle to determine whether it is a SICR under ECL IFRS guidelines.

Macro-economic variables
Macro-economic variables are taken into account for the determination of the ECL. This takes into account forward-looking developments that may affect potential credit losses. The bank uses its internally developed models to make projections about unemployment and inflation. In June 2021 and December 2020, the bank updated the projections for inflation and unemployment. This was done using input data from the ECB's scenarios on inflation and unemployment for all of Europe, but scaled for the Netherlands based on actual figures.

The following breakdown provides an overview of the macro-economic variables and the weightings assigned to them.

Macro-economic variable	Scenario	Weighting as at 30 June 2021	Weighting as at 31 December 2020
Unemployment	Base scenario	0.50	0.50
	Upward scenario	0.25	0.25
	Downward scenario	0.25	0.25
		-	-
Inflation	Base scenario	0.50	0.50
	Upward scenario	0.25	0.25
	Downward scenario	0.25	0.25

The following breakdown provides an overview of the macro-economic variables and the percentages used in the base scenario.

Macro-economic variable	Year	% as at 30 June 2021	% as at 31 December 2020
Unemployment	2020	-	3.58
	2021	3.96	3.80
	2022	4.04	3.92
	2023	4.08	-
Inflation	2020	-	0.44
	2021	1.05	0.54
	2022	1.57	-
	2023	2.00	1.41

Sensitivity analysis
The following analysis was carried out to measure the ECL's sensitivity to the various factors. The calculation of the ECL is partly determined by the assumed macro-economic variables. The following overview shows the impact on the ECL in different scenarios.

Breakdown of the ECL into economic scenarios

30 June 2021		2021	2022	2023	Probability-weighting scenario	Weighted ECL	Reported ECL
Scenario 1: Down market	Inflation NL	0.60	0.98	1.43	0.25	163	
	Unemployment NL	4.43	5.05	5.67	0.25		
Scenario 2: Stable	Inflation NL	1.05	1.57	2.00	0.50	257	522
	Unemployment NL	3.96	4.04	4.08	0.50		
Scenario 3: Up market	Inflation NL	1.50	2.14	2.57	0.25	102	
	Unemployment NL	3.49	3.04	2.53	0.25		

31 December 2021		2020	2021	2022	Probability-weighting scenario	Weighted ECL	Reported ECL
Scenario 1: Down market	Inflation NL	0.44	0.10	0.86	0.25	226	
	Unemployment NL	3.58	4.26	4.92	0.25		
Scenario 2: Stable	Inflation NL	0.44	0.54	1.41	0.50	371	749
	Unemployment NL	3.58	3.80	3.92	0.50		
Scenario 3: Up market	Inflation NL	0.44	0.98	1.96	0.25	151	
	Unemployment NL	3.58	3.33	2.91	0.25		

Analysis 1: sensitivity of the ECL if 100% of the individual scenarios were to be applied
The table below shows the sensitivity of the ECL if 100% of the individual scenarios (downside, base and upside) were to be applied to all exposures as at 30 June 2021. Given the limited size of non-government guaranteed exposures, the sensitivity to the different scenarios is limited.

Sensitivity Analysis - scenarios (in thousands of euros) as per 30 June 2021	100% Downward scenario	100% Basis scenario	100% Upward scenario
ECL	651	515	408

Sensitivity Analysis - scenarios (in thousands of euros) as per 31 December 2020	100% Downward scenario	100% Basis scenario	100% Upward scenario
ECL	905	749	605

Analysis 2: All Credit Risk Scores deteriorate by 1 step (CRS+1)
In this analysis, the most important factor in the calculation of the ECL, Credit Risk Scores (CRS), is shifted with a deterioration of plus 1. The impact of this shift on the ECL is an increase of approximately €4.8 million (31 December 2020: €9.3 million). As a result, the ECL would be approximately €5 million (31 December 2020: €10 million) instead of the amount of €522,000 (31 December 2020: €749,000) reported at 30 June 2021. As mentioned above, further refinement of the rating method as part of the ECL methodology will reduce sensitivity in 2021.

14 DIVIDEND

In response to the ECB's urgent recommendations of 27 March and 27 July 2020 (ECB/2020/19 and ECB/2020/35), the bank has decided to postpone the payment of dividends (not before 1 October 2020 and 1 January 2021 respectively). The reason for this is the COVID-19 pandemic and the uncertainties it is creating for banks and the economy. Despite the fact that the bank is aware of its special character as a national promotional bank and that a dividend payment to its public shareholders contributes to combating the economic consequences of COVID-19 without affecting the bank's ability to provide additional lending, the bank has decided to follow the recommendation. The shareholders have shown understanding for this decision. However, in line with recommendation ECB/2020/62 of 15 December 2020, which has given banks some leeway for paying our dividends, the bank paid €8.1 million in dividends for 2019 to our shareholders in early March 2021. The remaining 2019 dividend of €46.9 million and the 2020 dividend of €45 million will be disbursed as soon possible after 30 September 2021 in line with the ECB's most recent announcement in early July.

15 TIER 1 CAPITAL RATIO

NWB Bank applies the Standardised Approach (SA) in calculating risk-weighted assets.

	30 June 2021	31 December 2020
Equity excluding profit for the current financial year	1,780	1,746
Intangible assets	-7	-6
Prudential filters	-11	-10
CET 1 capital	**1,762**	**1,730**
Additional Tier 1 capital	321	320
Tier 1 capital (A)	**2,083**	**2,050**
Weighted credit risk (SA)[1]	3,133	2,758
Capital requirement pursuant to CVA (SA)[1]	1,027	714
Weighted operational risk (SA)[1]	342	361
Risk-weighted assets (B)	**4,502**	**3,833**
Tier 1 ratio (A/B)	**46%**	**50%**

1) Standardised Approach

If the profit for the current financial year is taken into account, the bank's Tier 1 capital ratio was 48% at the end of June (54% at year-end 2020).

The calculation of the Tier 1 capital ratio was adjusted based on the Banking Package, which entered into force on 27 June 2021. The Banking Package is a revision of the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). With the Banking Package, a new calculation method for counterparty credit risk has become applicable: the Standardised Approach to Counterparty Credit Risk (SA-CCR). The SA-CCR has led to an increase in risk-weighted assets and the Credit Valuation Adjustment (CVA) of approximately €650 million and therefore a decrease in the Tier 1 ratio as of 30 June 2021.

16 EVENTS AFTER THE BALANCE SHEET DATE

There were no important events after the balance sheet date that require clarification.

GLOSSARY

CET 1 capital ratio
The bank's core capital, expressed as a percentage of its total risk-weighted assets.

Tier 1 capital ratio
The core capital including the bank's Additional Tier 1, expressed a percentage of its total risk-weighted assets.

Cost/income ratio
Operating expenses (excluding bank tax, resolution levy and Expected Credit Loss) relative to operating income.

Dividend payout ratio
Dividend payout relative to net profit.

Leverage ratio (adjusted for promotional assets)
The ratio between the Tier 1 capital and the (adjusted) total assets of the bank. The promotional assets are not included in the total assets.

Leverage ratio (not adjusted for promotional assets)
The ratio between the Tier 1 capital and the (unadjusted) total assets of the bank. The promotional assets are included in the total assets.

Promotional asset
A loan granted directly or through an intermediary credit institution on a non-competitive, non-profit basis by a public development credit institution or an entity set up by the central government, regional government or local government of a Member State of the European Union to promote the policy objectives of the central government, regional government or local government of a Member State.

Liquidity Coverage Ratio
The Liquidity Coverage Ratio (LCR) is an indicator that shows whether there are sufficient liquid assets to absorb a 30-day period of stress.

Net Stable Funding Ratio
The Net Stable Funding Ratio (NSFR) aims to determine to what degree long-term assets are financed by more stable forms of funding.

INDEPENDENT AUDITOR'S REVIEW REPORT

TO: THE SHAREHOLDERS, SUPERVISORY BOARD AND MANAGING BOARD OF NEDERLANDSE WATERSCHAPSBANK N.V.

Our conclusion

We have reviewed the interim financial information included in the accompanying half-yearly financial report of Nederlandse Waterschapsbank N.V. (NWB Bank) based in The Hague for the period from 1 January 2021 to 30 June 2021.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of NWB Bank for the period from 1 January 2021 to 30 June 2021, is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

The interim financial information comprises:

- the balance sheet as at 30 June 2021;
- the statement of income, statement of comprehensive income, the statement of changes in equity and the condensed statement of cash flows for the period from 1 January 2021 to 30 June 2021;
- the notes comprising of a summary of the accounting policies and selected explanatory information.

Basis for our conclusion

We conducted our review in accordance with Dutch law, including the Dutch Standard 2410, "Het beoordelen van tussentijdse financiële informatie door de accountant van de entiteit" (Review of interim financial information performed by the independent auditor of the entity). A review of interim financial information in accordance with the Dutch Standard 2410 is a limited assurance engagement. Our responsibilities under this standard are further described in the Our responsibilities for the review of the interim financial information section of our report.

We are independent of NWB Bank in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of management and Supervisory Board for the interim financial information

Management is responsible for the preparation and presentation of the interim financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the interim financial information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing NWB Bank's financial reporting process.

Our responsibilities for the review of the interim financial information

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

The level of assurance obtained in a review engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing. Accordingly, we do not express an audit opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the review, in accordance with Dutch Standard 2410.

Our review included among others:

- Updating our understanding of NWB Bank and its environment, including its internal control, and the applicable financial reporting framework, in order to identify areas in the interim financial information where material misstatements are likely to arise due to fraud or error, designing and performing analytical and other review procedures to address those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion;
- Obtaining an understanding of internal control as it relates to the preparation of interim financial information;
- Making inquiries of management and others within NWB Bank;
- Applying analytical procedures with respect to information included in the interim financial information;
- Obtaining assurance evidence that the interim financial information agrees with, or reconciles to, NWB Bank underlying accounting records;
- Evaluating the assurance evidence obtained;
- Considering whether there have been any changes in accounting principles or in the methods of applying them and whether any new transactions have necessitated the application of a new accounting principle;
- Considering whether management has identified all events that may require adjustment to or disclosure in the interim financial information;
- Considering whether the interim financial information has been prepared in accordance with the applicable financial reporting framework and represents the underlying transactions free from material misstatement.

Amsterdam, 27 August 2021

Ernst & Young Accountants LLP

Signed by R. Koekkoek

EXECUTIVE COMMITTEE AND SUPERVISORY BOARD

EXECUTIVE COMMITTEE

Lidwin van Velden
Melchior de Bruijne
Ard van Eijl
Frenk van der Vliet

SUPERVISORY BOARD

Joanne Kellermann
Petra van Hoeken
Toon van der Klugt
Frida van den Maagdenberg
Annette Ottolini
Manfred Schepers

The Hague, 27 August 2021