ANNUAL REPORT

2016

NEDERLANDSE WATERSCHAPSBANK N.V.

NWB BANK

CONTENTS

1.0

HEADLINE FIGURES

1.0 HEADLINE FIGURES

(amounts in millions of euros)	**2016**	2015	2014	2013	2012
Balance sheet					
Long-term loans and advances (nominal value)	**48,260**	49,069	49,421	49,595	48,142
Equity[1]	**1,507**	1,399	1,303	1,256	1,226
Tier 1 capital[1]	**1,824**	1,594	1,300	1,256	1,226
Total assets	**94,414**	91,314	88,249	73,006	76,084
Risk-weighted assets	**1,821**	1,421	1,152	1,039	933
Results					
Net interest income	**218**	177	117	95	107
Results from financial transactions	**-25**	-6	-16	-14	-24
Operating income	**193**	171	101	81	83
Operating expenses[2]	**19**	18	16	16	14
Income tax expense	**42**	37	21	16	17
Bank tax and resolution levy	**25**	21	15	15	12
Net profit	**107**	95	49	34	40
Dividend					
Dividend distribution	**0.0**	0.0	0.0	0.0	0.0
Dividend per share in euros	**0.0**	0.0	0.0	0.0	0.0

1) including profit for the financial year.
2) excluding bank tax and resolution levy.

(amounts in millions of euros)	**2016**	2015	2014	2013	2012
Ratio's (%)					
Tier 1 ratio[1]	**61.2[4]**	79.8	73.0[3]	100.9	111.2
CET 1 ratio[1]	**50.5[5]**	69.8	73.0[3]	100.9	111.2
Operating expenses/interest ratio	**8.6**	9.8	13.8	16.9	13.1
Dividend pay-out ratio	**0.0**	0.0	0.0	0.0	0.0
Leverage ratio[1]	**2.3**	2.1	1.8	1.9	-
Liquidity Coverage Ratio	**146**	134	144	110	-
Net Stable Funding Ratio	**123**	117	107	107	-
Corporate Social Responsibility					
Volume of Green and Social Bond financing	**1,110**	1,000	500	-	-
CO_2 emissions from operating activities p.p. (in tonnes)	**4.1**	4.0	4.8	4.5	4.0

1) including profit for the financial year.
2) excluding bank tax.
3) with the Capital Requirements Regulation and Directive (CRR/CRD) having taken effect on 1 January 2014, the Tier 1 ratio and CET 1 ratio dropped by approximately a quarter, due to the introduction of the Credit Valuation Adjustment (CVA) capital charge.
4) 57.6 excluding profit for the year (2015: 75.0).
5) 46.9 excluding profit for the year (2015: 65.1).

2.0

ORGANISATION

2.0

MANAGING BOARD

Name	Menno Snel (46)
Year of first appointment	from 1 September 2016
Term of office ends in	2020
Principal position	Chairman of the Managing Board
Portfolio	Strategy, communication, organisational and management development/HRM, legal & compliance and the internal audit department
Relevant other positions	None

Name	Lidwin van Velden (53)
Year of first appointment	2010
Term of office ends in	2018
Principal position	Member of the Managing Board
Portfolio	Finance & control, risk management, back office, security management and tax
Relevant other positions	Supervisory Board member of the University of Amsterdam and adviser to the Supervisory Board of the Amsterdam University of Applied Sciences (until September 2016); Member of the Audit Committee of the Ministry of Education, Culture and Science.

Name	Frenk van der Vliet (49)
Year of first appointment	2012
Term of office ends in	2020
Principal position	Member of the Managing Board
Portfolio	Lending, funding & investor relations, asset & liability management, ICT and corporate social responsibility
Relevant other positions	None

Management Team

Menno Snel, Chairman from 1 September 2016
Lidwin van Velden, member of the Managing Board
Frenk van der Vliet, member of the Managing Board
Marian Bauman, human resources management
Peter Bax, back office
Ard van Eijl, risk management
Reinout Hoogendoorn, internal audit department
Leon Knoester, public finance
Marc-Jan Kroes, finance & control
Tom Meuwissen, treasury
Heleen van Rooijen, legal & compliance
Michel Vaessen, ICT

SUPERVISORY BOARD

Name	Age Bakker (66), Chairman
Committees	Member of the Audit, Risk, and Remuneration and Appointment Committees
Year of first appointment	2012
Term of office ends in	2020
Last position held	Executive Director of the International Monetary Fund (IMF)
Relevant other positions	Extraordinary State councillor, Dutch Council of State; Chairman of the Board of Financial Supervision Curaçao and Sint Maarten; Chairman of the Board of Financial Supervision Aruba; Chairman of the Board of Financial Supervision Bonaire, Sint Eustatius and Saba; Member of the Board of Pensioenfonds Zorg en Welzijn (Dutch Pension Fund for the care and welfare sector); Chairman of the Investments Committee of Pensioenfonds Horeca & Catering; Member of the SME Financing Committee of the Dutch Ministry of Economic Affairs.

Name	Maurice Oostendorp (60)
Committees	Chair of the Audit Committee, member of the Risk Committee
Year of first appointment	2012 (EGM)
Term of office ends in	20 April 2017
Principal position	Chief Executive Officer of de Volksbank N.V.
Relevant other positions	Supervisory Director of Propertize B.V. and Chair of AC Propertize N.V. (until the end of September 2016); Member of the Advisory Council of Women in Financial Services (WIFS); Supervisory Director of SRH N.V. (until the end of May 2016).

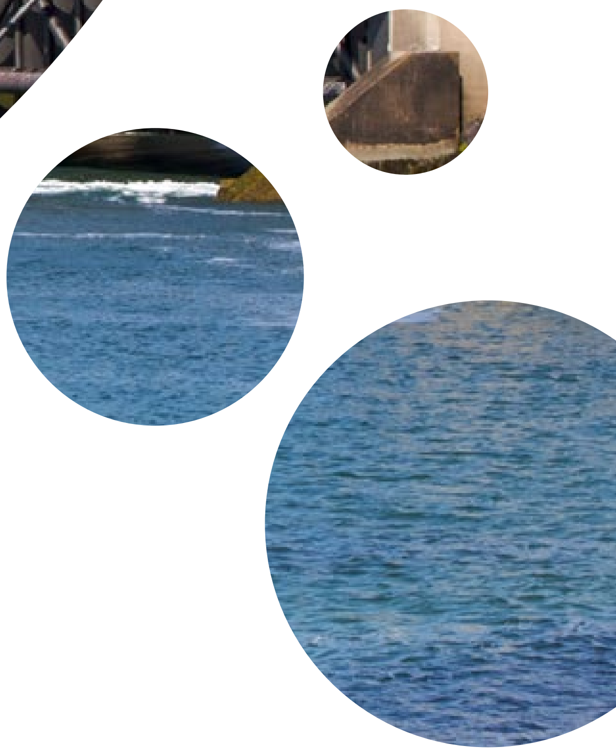
Name	Peter Glas (61)
Committees	Chair of the Remuneration and Appointment Committee
Year of first appointment	2011
Term of office ends in	2019
Principal position	Water Reeve of De Dommel Water Authority
Relevant other positions	Chair, Noord-Brabant Association of Water Authorities; Chair, OECD Water Governance Initiative.

Name	Petra van Hoeken (55)
Committees	Chair of the Risk Committee, member of the Audit Committee
Year of first appointment	2015
Term of office ends in	2019
Principal position	Executive Board member/Chief Risk Officer, Rabobank (from 1 April 2016)
Relevant other positions	Utrecht-America Holdings, Inc., member of the North America Board of Directors and member of the North America Board Risk Committee; Member of the Advisory Board, Amsterdam Institute of Finance.

Name	Manfred Schepers (56)
Committees	Member of the Audit and Risk Committees
Year of first appointment	2016
Term of office ends in	2020
Last position held	Vice-President and Chief Financial Officer at the European Bank for Reconstruction and Development, London
Relevant other positions	Member of the Board Fotowatio Renewable Ventures B.V.; Member of the Board Almar Water Solutions B.V.; Chairman of the Board of Het Compagnie Fonds, National Maritime Museum; Advisory Board member, Amsterdam Institute of Finance; Member of the Board of Governors of UWC Atlantic College; Trustee UWC Dilijan, Armenia and UWC Maastricht.

Name	Albertine van Vliet-Kuiper (65)
Committees	Member of the Remuneration and Appointment Committee
Year of first appointment	2012 (EGM)
Term of office ends in	20 April 2017
Last position held	Mayor of Gooise Meren
Relevant other positions	Chair of the Supervisory Board, Omnia Wonen; Member of the Dutch Council for Public Administration; Chair of the Supervisory Committee, Victas Centre for the care and treatment of drug addicts (until 1 April 2016).

3.0



REPORT OF THE MANAGING BOARD

3.0 REPORT OF THE MANAGING BOARD

The Managing and Supervisory Boards are pleased to present the 2016 Annual Report of NWB Bank, which includes the bank's financial statements, signed by the Managing and Supervisory Boards and audited and accompanied by an unqualified audit opinion by Ernst & Young Accountants LLP (EY).

Proposal to shareholders

The Managing and Supervisory Boards propose that you adopt the 2016 financial statements as submitted. The Managing and Supervisory Boards furthermore propose that you discharge the members of the Managing Board from liability for the management conducted and the members of the Supervisory Board for the oversight exercised in the year under review.

Strategy

NWB Bank's **mission** is to enter into lasting relationships with its customers and shareholders as a customer-focused, robust and sustainable financing partner and to enable them to fulfil their duties in Dutch society in the best possible manner.

Our mission is based on responsibility towards society, a strong financial position and efficient business operations. By providing financing to its customers on the most favourable terms possible, NWB Bank enables the public sector to keep the cost of fulfilling its duties in Dutch society and the cost of public facilities in the Netherlands as low as possible. NWB Bank does not seek to maximise profit, but seeks to create added value for society by providing financing at the lowest possible interest rate and by being available to its customers at all times.

The bank's customers are water authorities, municipal and provincial authorities and institutions guaranteed by or affiliated to local and regional government bodies. The bank therefore grants loans not only to public organisations specialising in water, energy and the environment, but also to social housing, healthcare and educational institutions. Corporate social responsibility, its strong financial position and cost-efficient, professional and transparent business operations are the cornerstones of the bank's efforts to keep enhancing its contribution to society. In 2016, NWB Bank issued new long-term loans totalling over €7 billion. In the past decade, the bank has issued loans totalling more than €65 billion to support economic growth in the Netherlands. The bank contributed to strengthening the Dutch economy by broadening its credit policy and product range for the benefit of its public sector clients. NWB Bank's activities now include financing Public-Private Partnership (PPP) projects, export financing and financing organisations such as water supply companies. By offering high-quality and inexpensive long-term financing, NWB Bank can create added value for society in these areas too. With total assets of over €90 billion, NWB Bank is a key player in the Dutch banking landscape.

The sustainable investment agenda has become increasingly central to NWB Bank's mission. This lies partly in the bank's origins, yet this philosophy is also strongly embraced by the bank's shareholders and other stakeholders. Water authorities regard climate adaptation and water purification as their core tasks and are forerunners in the production of sustainable energy and the recovery of raw materials from waste water. NWB Bank contributes to this ambition through the financing of 'green deals' for the water authorities. With this specific purpose in mind, the bank issued USD 1.25 billion in green bonds (Water Bonds) in 2016. Furthermore, the bank concluded cooperation agreements in this area with both the European Investment Bank (EIB) and the Netherlands Investment Agency for EFSI (NIA).

Following on from the above, in 2016 NWB Bank provided constructive input to the government and to public organisations on the question of how the bank could contribute to the public investment agenda for the years ahead. As a promotional bank with a sustainable social mission, NWB Bank is of course keen to contribute to a solution to this investment challenge in areas such as energy transition and climate-mitigating and adaptive measures. A topic regularly discussed in this context was the need for and benefit of potentially establishing a national financing and development institution. This policy discussion has meanwhile been reflected in the government's intention to establish a Dutch financing and development institution in 2017 called Invest-NL. This institution will support the development of projects and businesses in executing major transitional tasks and will receive a capital contribution of €2.5 billion from the central government. NWB Bank supports the government's intention and has indicated that it wishes to make a contribution based on the bank's knowledge and experience in the public domain.

NWB Bank can effectively fulfil its societal duties only if society, and its clients in particular, are confident about the organisation and the integrity of the bank's dealings with its business contacts. Accordingly, consciousness, engagement and reliability are the **core values** embraced by NWB Bank. The bank expects its employees to actively promote those core values in performing their duties. Moreover, NWB Bank depends almost entirely

Vision

We combine our objectives as a promotional bank with an active approach towards creating added value for society in the social, environmental and economic fields.

Mission

As a customer-focused, robust and sustainable financing partner, we enter into lasting relationships with our stakeholders and enable them to fulfil their duties in Dutch society in the best possible manner.

Strategy

By catering efficiently to the combined financing needs of customers in the public domain, we aim to keep the financing charges for the public sector as low as possible. We aim to respond to changes in public sector requirements and be available to our customers at all times.

Core values

Consciousness, engagement and reliability.

on the international money and capital markets for its funding requirements. Besides high credit ratings, which are reflected in the AAA ratings equal to those of the Dutch state, integrity and the transparent provision of information are of the essence in this regard, not only to investors but also to our other stakeholders.

Ever since it was incorporated in 1954, NWB Bank has focused its **strategy** on catering efficiently to the combined financing needs of customers in the public arena, aiming to lower the public sector's financing charges. The bank's strategy is geared towards achieving reasonable profits that are adequate to safeguard the bank's continuity and that enable the bank's future growth. One aspect of this strategy is that the bank wishes to be available to its clients at all times and is alert to new developments so that it can respond to changes in public sector requirements. The bank's shares are held exclusively by Dutch public authorities. Its position as a bank whose shares are owned by the Dutch public authorities and the restriction of its lending operations to the public sector, both enshrined in its Articles of Association, safeguard NWB Bank's robust profile. As stated, sustainability and relevance to society are key spearheads in this strategy.

The more specific 2016 strategic policy targets focused among other things on maintaining the bank's AAA credit ratings (equal to those of the Dutch State), achieving a strong position in the government/semi-government investment market and achieving the benchmark return on equity agreed with our shareholders. The benchmark for the return on equity is based on the income from a ten-year continuous investment in a ten-year Dutch government bond, plus a surcharge appropriate to the bank's profile. In 2016, the bank achieved the benchmark return on equity.

Developments in the financial markets

In 2016, developments in the financial markets were largely driven by a number of impactful political events with an unexpected outcome, such as Britain's exit from the European Union and the outcome of the US presidential elections. Looking at the full year, despite the significant temporary fluctuations on the stock markets shortly after these surprising outcomes, the upward trend on the western stock markets persisted. Where in early 2016 market analysts had focused mainly on possible concerns about the Chinese economy, quite soon afterwards the markets had zeroed in on the 23 June British referendum on European Union membership. As many market parties and opinion polls were largely wide of the mark, the results had a profound impact on both the stock markets and the fixed income and foreign exchange markets. The British pound plummeted against the euro and the US dollar.

Precisely at the moment that concerns about the negative impact of a British exit from the European Union were beginning to fade away, a new challenge for the financial markets emerged: the uncertainty surrounding the outcome of the US elections on 8 November. Once again, the markets and opinion polls had counted on another outcome. Against all odds, the stock market decline predicted by many analysts failed to materialise, with the stock markets making significant gains instead. The last month of the year was marked by considerable market unrest about the possible negative outcome of the Italian constitutional referendum on 4 December. The negative result indeed materialised, though no major fluctuations or corrections in the market occurred.

Despite the unfavourable and unstable political climate, in 2016 the European Central Bank (ECB) continued its liberalised monetary policy aimed at stimulating economic growth to bring inflation closer to the 2% target figure. The ECB lowered its principal interest rate to 0.0% and the deposit rate from -0.30% to -0,40% on 11 March. In addition, the ECB continued its Quantitative Easing (QE) policy by buying up bonds. It also announced four new targeted longer-term refinancing operations (TLTROs), the first of which took effect in June 2016. The ECB's aim in issuing the TLTRO loans is to provide inexpensive financing to private individuals and companies in the eurozone. On 8 December, the ECB announced that it would in any case extend the bond-buying programme launched in March 2015 until the end of 2017. The monthly amount of bonds to be purchased, however, has been reduced from €80 billion to €60 billion effective from March 2017.

All of these developments failed to prevent capital market interest rates from soaring in the last quarter of 2016. The interest on 10-year Dutch government loans was up by almost 60 basis points in the fourth quarter, from -0.03% at the end of September to 0.55% in December. Despite the turmoil in the financial markets, 2016 was a good year for the Dutch economy, and the trend of rising economic growth and falling unemployment persisted. The Dutch public sector again was able to borrow funds at historically low interest rates in 2016, with negative interest rates for terms under three years. These low interest rates enabled the government to limit the burden on citizens. By contrast, in 2016 investments within the public sector lagged behind the private sector, where clear signs of growth were evident. In the public sector, however, the financing requirement from the water authorities rose, partly on account of the significant investment agenda arising from the Delta Programme. A decline in the financing requirement of housing corporations has been apparent for several years, mainly due to the sale of property. At the same time, however, the sustainability of their housing stock is beginning to play an ever more important role, which will lead to a higher financing requirement in the future.

NWB Bank in 2016

NWB Bank's new long-term lending (including interest rate resets) to the Dutch public sector exceeded €7 billion again in 2016 (€7.1 billion in 2016 and € 7.4 billion in 2015). In addition to providing financing to its regular clients, the bank reinforced its position in the PPP market in the past year. Having taken over existing loans and having been involved in refinancing such projects in 2015, the bank primarily financed new PPP transactions in 2016. At the end of 2016, the bank had concluded €370 million in PPP transactions. Furthermore, similar to 2015, there were customers, mainly the water authorities, who wanted to optimise their loan portfolios against the background of the exceptionally low interest rates. Existing loans were repaid early and replaced by longer-term loans at a lower interest rate. Loans offered in the secondary market were also purchased in 2016 and Export Credit Guarantee (ECG) loans were issued, backed by the State of the Netherlands.

The bank has a portfolio of NHG-RMBS notes (Residential Mortgage Backed Securities, based on government-backed home mortgages under the National Mortgage Guarantee (NHG) scheme), through which the bank contributes to the financing of government-backed private home mortgages. This portfolio forms part of the bank's liquidity portfolio. Despite the limited supply of fully NHG-guaranteed transactions, the bank purchased €571 million in new NHG-RMBS bonds in 2016. The total NHG-RMBS portfolio currently amounts to €2.1 billion (€2.2 billion at the end of 2015).

Housing corporations represent the largest share of the lending portfolio in the Dutch public sector. Lending by the bank to housing corporations totalled €3.8 billion, on par with the previous year. At 22%, the water authorities' share was relatively high (2015: 27%), with this sector primarily utilising the opportunity to extend the maturity of their loan portfolio. At 54%, the housing corporations' share again was slightly up compared to the previous year (2015: 50%). The shares of the other sectors remained virtually unchanged.

NWB Bank raised over €12 billion in funding (including refinancing) on the international capital market. This included a bond issue with a maturity of 25 years, the longest maturity period ever for a public issue by the bank. Given the extremely low interest rate levels, investors are interested in longer maturities with a correspondingly higher interest rate.

In 2016, the spreads paid by the bank above Euribor decreased further. The bank is able to raise funds on very favourable terms on account of its AAA ratings, which are equal to those of the Dutch State. The fact that the ECB purchases the bank's bonds as part of the QE bond-buying programme and the qualification of the bank's bonds as high-quality liquid assets (HQLA) to comply with the liquidity obligations under the Liquidity Coverage

Ratio (LCR) likewise are favourable factors. The bank raised its own funding primarily in euros and to a lesser extent in US dollars.

Considerable interest was also shown in the bank's short-term financing in 2016. The bank borrowed a total of €27.9 billion under the Euro Commercial Paper (ECP) programme and €8.2 billion under the US Commercial Paper (USCP) programme. This is a higher amount for commercial paper than in 2015, which mainly relates to the increase in the bank's collateral obligations resulting from the lower interest rates for the largest part of 2016. Commercial paper enabled the bank to finance its liquidity and collateral obligations at attractive rates.

Similar to the two preceding years, in 2016 NWB Bank again issued a Water Bond, which on this occasion amounted to USD 1 billion (plus an increase of USD 250 million) with a 10-year term (in 2015: a 10-year benchmark Water Bond of €1 billion). This was the bank's first US dollar Water Bond, which attracted considerable interest from 'green' investors. The water authorities employ financing of this type for sustainable investment projects, which explains the name 'Water Bond'. Water Bond issues enable NWB Bank to continue to attract new investors and to expand the market reach of green bonds. Besides traditional investment considerations such as investment safety and the risk/return trade-off, investors largely purchased the bonds because of their interest in supporting climate-friendly projects under their investment mandate. Water Bond issues serve to underline NWB Bank's role as a robust and sustainable financing partner for the Dutch public sector. The bank's enthusiasm in serving as a partner should also be viewed in this light with its sponsorship of the Water Innovation Prize.

At the end of 2016, the EIB and NWB Bank signed another loan agreement, which on this occasion amounted to €250 million. The EIB will make this amount available to NWB Bank which, in turn, will subsequently invest €500 million in enhancing the sustainability of social housing and in achieving the objectives of the water authorities concerning the circular economy. The loan represents a continuation of the collaboration entered into at the end of 2015, through which €800 million in social housing, environmental, knowledge economy and water sector projects have meanwhile been financed. The collaboration was initiated not only for the purpose of exchanging knowledge and experience but also to provide the Dutch public sector with more attractive financing.

NWB Bank's net profit rose to €107.4 million in 2016 (2015: €94.7 million). This was mainly due to an improvement in net interest income by over €26.8 million to €218.3 million. The result on financial transactions deteriorated by around €15.2 million to -€24.5 million. The improved net interest income is due, among other things, to the attractive rates for the bank's short-term financing in particular. The restructuring of the swap portfolio carried out in the period 2013 – 2015 has also played a part. However, that contribution has been neutralised by the results from financial transactions. The restructuring of the swap portfolio has brought the bank's interest rate risk position more in line with the benchmark for return on equity, as agreed with the shareholders. The maturity extensions of clients' loan portfolios carried out at their request had a positive effect on the result from financial transactions (+ €22 million).

In 2016, operating costs rose by €1.1 million to €18.8 million (2015: €17.7 million). The rise can largely be accounted for by higher management costs and to a lesser extent higher employee benefits expenses. Partly in the light of the transition to direct ECB supervision with effect from November 2014, in the past three years the supervision costs have risen fivefold from €440.000 in 2013 to € 2.2 million in 2016 (total contribution in 2015: €1.7 million). Bank tax rose further to €19.5 million (2015: €18.5 million) on account of the rise in the bank's total assets. In 2016, the bank made a further contribution to the resolution fund pursuant to the Bank Recovery and Resolution Directive (BRRD). The bank's contribution amounted to €5.8 million before tax, excluding an irrevocable obligation of €1 million (2015: €2.7 million). Despite the necessary investments in the organisation and rising supervision costs, the bank has succeeded in maintaining its compact and efficient organisational model.

On balance, at €48.2 billion as at the end of 2016, the total long-term lending portfolio declined compared with the end of 2015 (€49.1 billion). In the same period, total assets rose by €3.1 billion to over €94.4 billion. The rise can largely be accounted for by an increase in collateral obligations due to a further drop in interest rates.

Despite the increase in total assets, the leverage ratio rose by 0.2 percentage points to 2.3%, (including profit for the current financial year). This is largely attributable to raising hybrid capital (additional Tier 1 or AT1 capital). In 2016, the bank raised €121 million, taking the total amount of AT1 capital to €321 million. The investors are mostly provincial authorities who deemed this an attractive investment of a public nature. The bank has proceeded to issue AT1 capital instruments in addition to the maximum reservation of annual profits in order to comply with the Basel capital requirements. On 23 November, the European Commission published the draft texts on the amendment of the Capital Requirements Regulation (CRR), including a specification of the leverage ratio obligation. These texts incorporate a proportional application of the leverage ratio obligation for 'public development credit institutions'. This suggests that promotional banks such as NWB Bank would fall under that definition. However, a number of points require further clarification in this regard. The proposed specification would entail a considerable reduction of the leverage ratio requirement for the bank. In view of the delay in decision-making, the introduction of the leverage ratio is expected to be postponed by at least one year until 1 January 2019. Against this background, the bank has for the time being decided not to issue any further AT1 instruments. The bank is closely monitoring the decision-making on the amendment of the CRR, particularly the leverage ratio obligation.

At the end of 2016, the bank's equity totalled €1,507 million (including 2016 profit) against €1,399 million at the end of 2015 (including 2015 profit). Tier 1 equity including hybrid capital stood at €1,833 million at year-end 2016 (including profit for 2016 and AT1 capital). The bank's total risk-weighted assets rose from €1,998 million at the end of 2015 to €2,983 million at the end of 2016. This increase is largely attributable to a different method of calculating the capital requirement for the Credit Value Adjustment (CVA), as previously stated in our 2015 Annual Report. CVA relates to the counterparty risk from the derivatives transactions which NWB Bank concludes to hedge interest rate and currency risks. The bank already introduced the new method for calculating the capital requirement for counterparty risk at year-end 2015. The adjustment involves a more conservative calculation of potential future exposure under what is known as the standard method, where the remaining contractual term is used for the term of the derivatives transactions and thus no account is taken of the daily exchange of collateral in the standard agreements NWB Bank uses for all its counterparties. Primarily due to this adjustment, the Tier 1 ratio declined from 79.8% at the end of 2015 to 61.2%, and the Common Equity Tier 1 (CET1) ratio declined from 69.8% at the end of 2015 to 50.5% (both including profit for the financial year). Nonetheless, these ratios are well above the minimum requirement, which underlines the high creditworthiness and low risk profile of NWB Bank. At the end of 2016, the ECB set the minimum required CET1 ratio for NWB Bank at 7% as a result of the annual Supervisory Review and Evaluation Process (SREP). The 7% minimum capital requirement comprises the 4.5% statutory minimum, a 1.25% general capital conservation buffer and a 1.25% bank-specific Pillar 2 requirement.

In 2015, the general meeting of shareholders appointed Ernst & Young Accountants LLP (EY) as the external auditor for the audit of the financial statements from the 2016 financial year, pursuant to the mandatory rotation of audit firms required by law. The rotation from KPMG to EY proceeded smoothly.

Reserves and dividend

In early 2011, NWB Bank decided to start adding its annual net profits to the reserves to the maximum possible extent with a view to the Basel III capital requirements. As the announced minimum required leverage ratio that will take effect on 1 January 2018 has been set at 3% for the time being, it has been decided not to pay a dividend until the bank satisfies this requirement.

As stated earlier, the leverage ratio stood at 2.3% at year-end 2016. Besides retaining profit, the bank has strengthened its capital base by issuing AT1 capital instruments. The bank raised a total of €320 million in AT1 capital among a number of provincial authorities. As stated above, the European Commission published the draft texts on the amendment of the CRR, including a specification of the leverage ratio obligation. These texts incorporate a proportional application of the leverage ratio obligation for 'public development credit institutions'. As soon as the final details have been communicated, the bank will revise its dividend policy.

Against this backdrop, the Managing Board has decided, following the Supervisory Board's approval, to add the €107.4 million net profit for 2016 to the general reserves in full. Accordingly, no profits will be at the disposal of the Annual General Meeting of Shareholders to distribute as dividends for the 2016 financial year.

Outlook for 2017

The outlook for the Dutch economy is comparatively favourable for 2017. This may offer more scope for investments in the public sector. At the same time, however, the bank sees fewer opportunities for further maturity extensions of loan portfolios by clients. All factors considered, the bank projects a lower level of new long-term lending (including interest rate resets) for 2017 than in the previous year.

NWB Bank is required to redeem approximately €9 billion in long-term financing in 2017. The new long-term financing requirement is estimated to be around €10 billion which, similar to previous years, will partially be fulfilled by issuing 'green bonds'.

The bank has invested in its organisation in recent years, in the area of both human resources and systems. The bank has furthermore noted a sharp increase in the costs of supervision since 2013. The bank projects a further increase in the workforce in 2017 in the light of the further diversification of its lending activities and the efforts required to comply with all the supervision requirements. This will bring about a further increase in the operating costs in 2017. Nonetheless, the bank continues to be a highly cost-efficient banking organisation.

In addition to income tax, the bank is required to remit some €20 million in bank tax. The bank will also make a further contribution to the Single Resolution Fund in 2017.

Partly due to the above factors, the bank expects a lower level of net profit in 2017 than in 2016.

Organisation

A Works Council was established in early 2016 due to the fact that the bank's workforce exceeds 50 employees. The Managing Board attaches significant value to the bank's characteristically flat, professional and open corporate culture. In this context, along with the overall development of staff, across the organisation attention was paid to the theme of 'being a more influential team' with the aim of deriving maximum benefit from mutual cooperation.

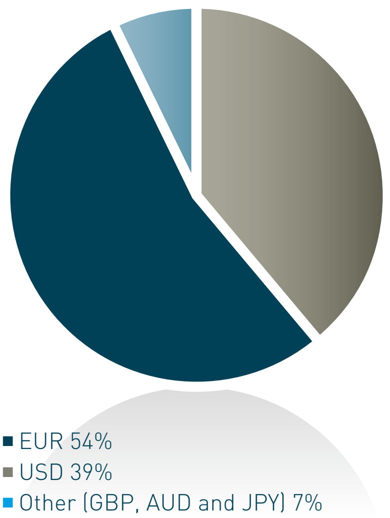
Funding

Long-term funding

To raise long-term funding, NWB Bank uses its €60 billion Debt Issuance Programme (DIP), under which standardised documents are used for the majority of the loans raised. The bank's strategy is to respond to investors' requirements in the most flexible manner possible which, together with the bank's excellent creditworthiness, enables the bank to raise funds on the most favourable terms.

The year 2016 was a successful year for long-term funding. The bank raised €12.4 billion (2015: €9.4 billion) in long-term funding with an average term of 8.5 years (2015: 7.8 years). Given the low absolute interest rate, the market showed considerable interest in longer maturities, with a view to generating at least some return. NWB Bank responded by issuing public loans with the longest maturity periods in its history, a 20-year and a 25-year loan. Due to the continued interest shown by investors, both loans were later increased to €1 billion and €600 million respectively. A large portion of the funding raised had a negative, effective interest rate. The funds were used to finance both the bank's activities and to refinance maturing loans. In 2016, the bank again benefited from the Level 1 status and the ECB's bond-buying programme, which both had a favourable effect on the spreads paid and the availability of funding. The combined share of the euro and US dollar in long-term funding was over 90%.

Division of currency graph



In 2016, NWB Bank issued four benchmark loans in both euros and US dollars with maturities between three and ten years totalling €4.3 billion. The ten-year USD 1 billion loan was a Water bond. As a result of issuing this third successful Water Bond, NWB Bank has attracted new investors and expanded the market reach of green bonds. In addition to the traditional investment considerations, such as investment safety and the risk/return trade-off, investors largely purchased the bonds because of their interest in supporting climate-friendly projects under their investment mandate. This loan, which was increased by USD 250 million later in the year, moreover is the longest benchmark loan ever issued by the bank in US dollars.

Money market funding

To raise money market funding, NWB Bank uses commercial paper: debt instruments with maturities of up to a year. In addition to the ECP, NWB Bank has a USCP aimed solely at the US market. A total of €27.9 billion was raised under the ECP programme in 2016 (2015: €19.6 billion) with maturities averaging six months (2015: 4 months), and €8.2 billion under the USCP programme (2015: €13.4 billion) with maturities averaging three months. Maturing commercial paper was refinanced in the course of the year, based on which the figures stated are cumulative figures, whereas the amounts outstanding at any time are lower. All money market funding was obtained at negative effective interest rates so that the redemption of the above financing was lower for the bank on balance than the nominal amount raised. As a result of an amendment of the regulations for US investors in USCP, the interest in this commercial paper declined sharply in the course of the year. This was simply offset by additional issues under the ECP programme at attractive rates. We largely use money market funding to finance short-term loans to our clients, collateral obligations arising from our derivative positions and the large liquidity buffer the bank maintains in cash.

Lending

In 2016, NWB Bank granted €7.1 billion in new long-term loans, just €0.3 billion lower than the record lending volume achieved in 2015. The high lending volume enabled the bank to maintain its market share in the financing of the Dutch public sector at a satisfactory level, notwithstanding the increased interest of other lenders, such as pension funds and insurers, in the public sector. The total portfolio of long-term loans to clients, based on principal amounts, amounted to €48.3 billion at year-end 2016 (2015: €49.1 billion). The bank finances over one third of the public investment agenda in the Netherlands.

Sustainability

The sustainable investment agenda is central to NWB Bank's mission and is closely linked to our clients. The majority of our clients ultimately have a far-reaching ambition in this area and play a crucial role in achieving the objectives of the Energy Agreement.

The water authorities, for instance, have committed to various climate programmes, key elements of which are sustainability and the promotion of the circular economy. Sustainable energy projects (in any event recovering energy from waste water, solar energy and wind energy, but occasionally biomass projects), are often included as an investment in the primary processes of a water authority. The housing corporations own roughly one third of the housing stock in the Netherlands and invest in enhancing the sustainability of social rented housing. In the years ahead, they plan to invest mainly in new-build social rented housing, in making homes more energy efficient and in keeping rents low.

In general, a major capital investment and a long period in which to recoup investments typify the above projects. NWB Bank is ideally placed to provide the type of financing described above. Furthermore, the bank is seeking new inroads into playing an active role in achieving the ambitions of its clients in this area. This is illustrated by the cooperation agreement we previously concluded with the EIB, resulting in the provision of a loan of €800 million at attractive rates in 2016, with half of the financing provided by the EIB, which is cheaper than the bank's regular funding. Of this inexpensive financing facility, €313 million was issued to the water authorities and €330 million to the housing corporations. Both promotional banks aim to expand these activities in the future. To that end, a new loan agreement was signed at the end of 2016 providing for €500 million in additional financing for the sustainable economy in 2017.

Customers

The bank's regular customers are water authorities, municipal and provincial authorities, and social housing and healthcare institutions guaranteed by local and regional government bodies. The financing provided to these customers is exempt from a solvency weighting and constitutes the largest share of lending volume (2016: 94%). The graph on the following page contains a breakdown of lending volume in percentages compared with the total volume by client sector.

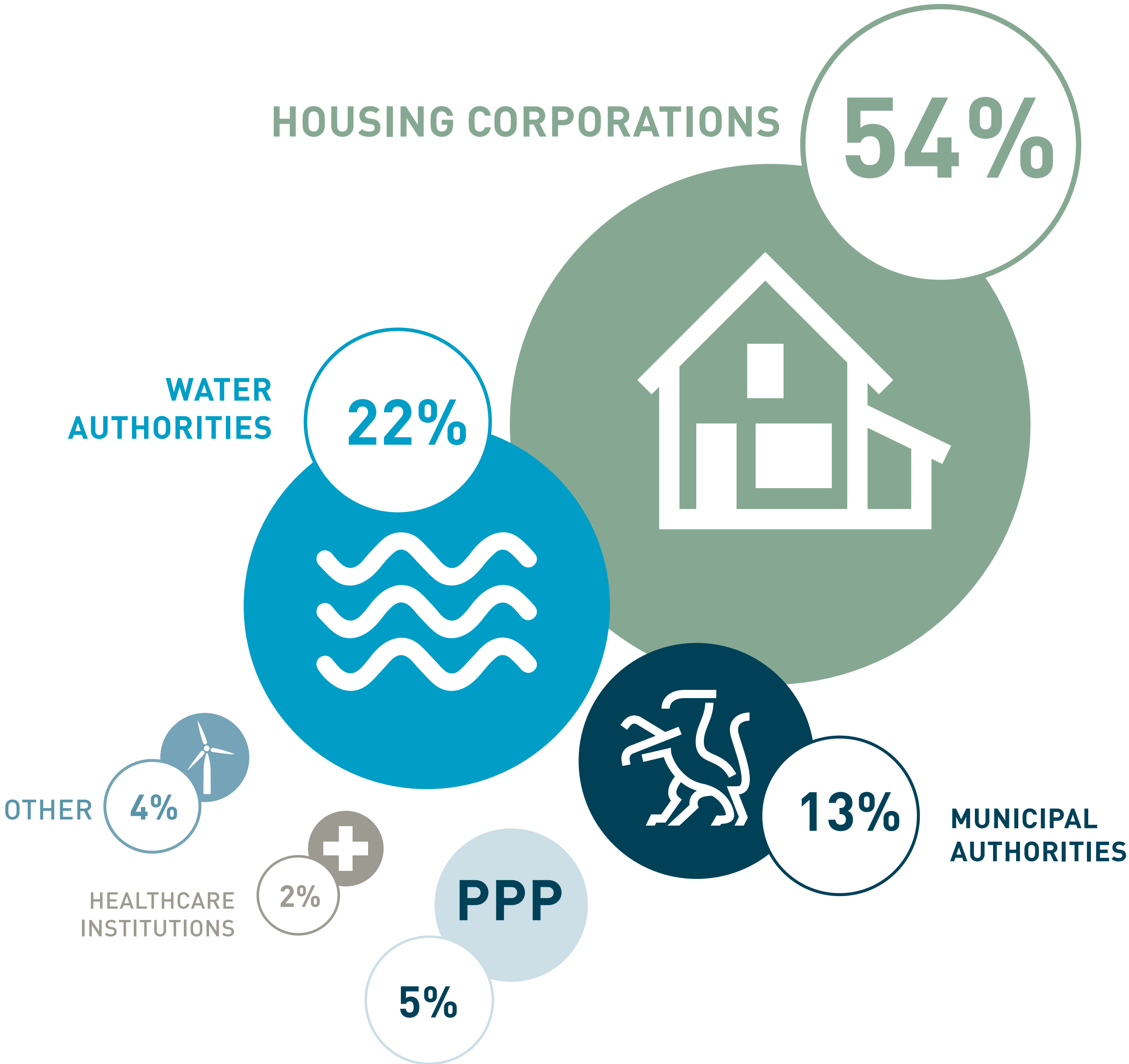
Although the housing corporations have adopted a more cautious approach to new investments as a result of the implementation of the amended Housing Act, lending volume in this sector still remains high at €3.8 billion (2015: €3.7 billion). That volume relates to the primary demand for loans and advances and to the review of loan charges for basic interest rate loans. According to the Netherlands Authority for Housing Associations (AW), the financial scope for housing corporations is increasing. The forecasts indicate that their financial scope will continue to increase in the years ahead. This is expected to have a positive effect on the housing corporations' investment capacity.

In 2016, NWB Bank provided over 90% of the financing required by the water authorities, representing a lending volume of over €1.5 billion. NWB Bank has reinforced its market share in this sector as a result. This is in line with the bank's objective of fulfilling a dominant financing role for its shareholders. Obviously, this is possible only if a very strict pricing policy is applied. The bank aspires to strengthen its dominant role over the next few years, so as to continue fulfilling its core duty towards shareholders. The financing requirement of the water authorities is expected to remain high in the years ahead on account of the investments under the Flood Protection Programme (HWBP). Nonetheless, we expect that the volume of financing to the water authorities will be lower in 2017, given that we have already complied with the wishes of the majority of the water authorities to extend their existing loan portfolios in the past two years. The philosophy behind such transactions is that existing high-interest loans are paid back early and replaced by longer-term, fixed-interest loans with a lower interest rate.

Expansion of lending activities

The bank has broadened its credit policy and product range in recent years in order to play a larger role for its public sector and semi-public sector clients and to thus support government policy. NWB Bank is currently also active in export financing. In making available long-term financing backed by a Dutch government ECG, the bank responds to the limited availability of attractively priced long-term export financing. The low financing costs clearly are conducive to the position of Dutch exporters. In the past year, the bank fully financed the construction of a hospital by a Dutch party in a development country through export financing.

The bank also plays a role in the financing of PPP projects. In 2016, the bank successfully expanded its portfolio by financing three new PPP projects; NWB Bank refinanced two existing PPP projects and took over the position in the banking group of one operational PPP project. As co-financier, NWB Bank has consequently gained a market share of over 25% of all accommodation and infrastructure projects put out to public tender by the Dutch central government in the last 15 years that have been brought to a financial close. The bank has a healthy project pipeline for the years ahead.



PPP

In May 2016, NWB Bank financed the N18 Groenlo-Enschede PPP project. This marks NWB Bank's first financing facility for a PPP project planned for construction. It was well-received by the market. The consortium, comprising the Dutch Infrastructure Fund and VolkerWessels, is responsible for the design, construction, maintenance and financing of the new 27-kilometre N18 motorway in the Eastern Netherlands.

NWB Bank also provided financing for the new law court in Amsterdam, with Macquarie Capital as the sole shareholder. The project comprises the design, construction, maintenance and financing of the new Court of Amsterdam, in line with the public tender put out by the Central Government Real Estate Agency on behalf of the Ministry of Security and Justice. Construction and maintenance will be carried out by the Heijmans and Facilicom joint venture.

N18 PPP, source: VolkerWessels

Court of Amsterdam PPP, source: KAAN Architecten

NWB Bank was also awarded two refinancing projects, the Delfluent PPP water purification project by the Delfland Water Authority and the Supreme Court of the Netherlands PPP project by the BAM-PGGM joint venture. The structure of the facility comprised the redemption of the loans provided by the existing financiers, the novation (and/or settlement) of various existing derivatives and the provision of a fixed-interest loan. Both projects are in the operational phase. As a result of the refinancing facility, the interest expenses, and consequently the costs for both the project and the local government authorities as the user, have been reduced and fixed for the remaining term.

Delfluent PPP, source: Delfluent Services B.V.

Supreme Court of the Netherlands PPP project, source: BAM / Claus en Kaan Architecten

> IN COLLABORATION WITH NWB BANK, THE REFINANCING PROCESS OF THE SUPREME COURT OF THE NETHERLANDS PPP PROJECT PROCEEDED SMOOTHLY AND SUCCESSFULLY. BY CONVERTING EXISTING LOANS AND THE CORRESPONDING DERIVATIVES INTO A SINGLE FIXED-INTEREST LOAN, THEREBY PERMANENTLY REDUCING THE COSTS OF THE PROJECT, NWB BANK DEMONSTRATED THAT IT IS A FLEXIBLE AND CREATIVE BANK.

Maarten van der Bent, Project Finance Director, BAM

In October 2016, NWB Bank financed the A27/A1 project. The project comprises both the widening and adjustment of various sections of the road and junctions between north Utrecht and the A27 Eemnes motorway junction, on the one hand, and between the Eemnes junction and the A1 Bunschoten Spakennurg motorway, on the other, plus the associated maintenance. In this project, NWB Bank supported the consortium consisting of Heijmans, Fluor Infrastructure and 3i Infrastructure.

A27/A1 PPP, source: Heijmans

Lastly, NWB Bank joined the operational Coentunnel PPP project as financier in July. The consortium, comprising Besix Group, Dura Vermeer Group and TBI combined with the PMF Infrastructure Fund, is responsible for maintenance of, among other things, the electrotechnical and mechanical systems, the road surface and the tunnel structures.

Coentunnel PPP, source: Rijkswaterstaat

Risk management

Risk management has a central role in the organisation (see also note 33 to the financial statements – Risk management). Risk awareness is an important element of the bank's business culture and is embedded in its long-term strategy aimed at solidity. The organisation is designed to identify risks at an early stage, analyse them, set sensible limits and monitor those limits. Risk management is characterised by effectively responding to changing circumstances and by providing proper parameters for the bank's operations. This helps the bank maintain its strong financial position and very low cost structure.

NWB Bank's borrowers are mainly public authorities and government-backed institutions. In addition, for liquidity purposes, the bank holds an interest-bearing securities portfolio comprising mainly government-backed RMBS under the National Mortgage Guarantee (NHG) scheme, bonds issued or guaranteed by Dutch public authorities and covered bonds issued by Dutch banks. The bank has diversified its lending activities in recent years in order to respond to developments in the Dutch public domain. An important new product is the financing of PPP projects. Partly in that light, the bank has invested in deepening its knowledge of these specific products and sectors, and in its credit risk management capacity. The bank has therefore recruited staff with expertise in this area and developed risk assessment frameworks. Throughout 2016 and indeed throughout its history, NWB Bank has never suffered a loan loss.

The bank enters into swap transactions with financial counterparties to hedge against interest rate and currency risks. Collateral is exchanged on a daily basis to manage the counterparty risks arising from these transactions in line with the contractual agreements set out in the Credit Support Annex (CSA). Furthermore, in May 2016 the bank transitioned to the central clearing of interest rate derivatives, in accordance with the European Market Infrastructure Regulation (EMIR). The transition to the central clearing of 'standard' interest derivatives became compulsory from 21 December 2016 (with backloading taking effect as of 21 May 2016). Not only does the bank use central clearing for new derivatives contracts, it has also transferred part of its existing portfolio for this purpose.

The liquidity standard LCR (Liquidity Coverage Ratio) has been in force since 1 October 2015, based on which DNB has set a minimum mandatory standard for the Dutch banking sector at 100%. At year-end 2016, NWB Bank satisfied the minimum requirements for both the LCR and the Net Stable Funding Ratio (NSFR), which is not yet in force. The LCR and NSFR turned out at 146% and 123%, respectively (the figures recorded in 2015 were 134% and 117% respectively).

As well as focusing continuously on tightening the management of financial risks, the bank also took further steps in 2016 towards the management of non-financial risks. The bank continuously focuses on tightening the management of information security risks, for example, particularly in the area of cybercrime. Against the background of developments in laws and regulations, the bank also reassessed and subsequently tightened its Customer Due Diligence (CDD) policy. Furthermore, the bank performed a self-assessment of operational risk management, also in view of the desire to transition to the standardised approach for supervision reasons. As a result of the self-assessment, the bank established an Operational Risk Committee (ORM) and appointed an ORM manager to strengthen governance in this area. The bank also developed a scenario analysis and an incident registration system and determined the relevant risk appetite.

Risk governance

The bank's strategy imposes high requirements on risk management and on the organisation and enforcement of effective internal control procedures. NWB Bank has adopted an organisation-wide approach to risk management and internal control. As an important element of its supervisory role, the Supervisory Board, in particular the Audit and Risk Committee of the Supervisory Board, evaluates management of the risks associated with banking operations. Based partly on an ECB recommendation, the bank split up its Audit and Risk Committee with effect from August 2016 into two separate committees: the Audit Committee and the Risk Committee.

The Managing Board sets the risk management parameters. Within these parameters, the Asset & Liability Committee (ALCO) takes decisions on the bank's risks. The Managing Board, treasury, public finance, risk management, finance & control and the back office are represented on the ALCO. A Credit Committee comprising public finance, risk management, legal & compliance and the Managing Board was also established in 2016 in the light of the diversification of the bank's activities referred to earlier. Lastly, an Operational Risk Committee (ORM) was established.

In accordance with the Dutch Banking Code, the bank determined its risk appetite level, setting out the degree and areas of risk NWB Bank is prepared to accept in achieving its strategic objectives. The Supervisory Board approves the risk appetite. In 2016, the bank improved its Risk Appetite Framework (RAF), defining a more distinct link between risk appetite and strategy, revising the Risk Appetite Statement (RAS) and clarifying the translation of the RAS into risk parameters and internal limits.

Capital management

The primary objective of capital management is to ensure that the internal targets and external capital requirements are always met and that sufficient capital is available to support NWB Bank's strategy.

Besides determining the minimum capital requirements by type of risk (credit risk, market risk, operational risk and concentration risk), the internal assessment of capital adequacy, the Internal Capital Adequacy Assessment Process (ICAAP), is a key activity within capital management. One component of the ICAAP involves conducting stress tests to test the robustness of capitalisation. Every year, the supervisory authority assesses the quality of the ICAAP and its realisation in the SREP and discusses this with the bank. At the end of 2016, the ECB set the minimum required CET1 ratio for NWB Bank at 7% as a result of the annual SREP. The 7% minimum capital requirement comprises the 4.5% statutory minimum, a 1.25% general capital conservation buffer and a 1.25% bank-specific Pillar 2 requirement. In the new SREP system introduced by ECB, Pillar 2 guidance must also be established. This is an additional capital buffer which the ECB recommends that banks maintain, based partly on the results of the stress test performed by the EBA/ECB.

With A CET1 ratio of 50.4%, NWB Bank amply complies with the above risk-weighted capital requirements. In addition, a non-risk-weighted standard, the leverage ratio requirement, will enter into force. The draft texts on the amendment of the CRR published by the European Commission on 23 November 2016 refer to a proportional application of the leverage ratio obligation for 'public development credit institutions'. This suggests that promotional banks such as NWB Bank would fall under that definition. However, a number of points require further clarification in this regard. Based on the proposed specification of the standard, the bank would now already comply with the target leverage ratio requirement of 3%; excluding the proportional specification, NWB Bank's leverage ratio is 2.3% at year-end 2016. Pending decision-making on the amendment of the CRR, the bank has decided not to continue issuing AT1 capital instruments.

Supervision

The bank has fallen under the direct supervision of the ECB since November 2014. The ECB performs supervision jointly with DNB as the national supervisor of the banking sector in what is known as a 'Joint Supervisory Team' (JST). Supervision has intensified in recent years. In the interests of both parties, the JST must have a good understanding of the specific profile, business model as well as risk management system of the bank. Clear and efficient lines of communication to the supervisory authority are also important. The supervisory authority, the external auditor and the bank discuss the insights concerning the bank's risk profile each year, which also serves as a basis for determining the supervision programme for the year ahead. In the past year, the programme included an audit of the bank's ICT organisation.

NWB Bank has had a recovery plan since 2014. In a recovery plan, a bank describes the measures that will be taken to stay afloat in a financial crisis. Every bank is required to draw up such a plan. NWB Bank considers it important in such extreme circumstances to carefully consider its crisis management organisation and the recovery measures available to it. In 2015, the plan was in fact tested in a simulation session. The plan is updated annually based on the findings of the annual SREP of the bank's capitalisation and liquidity position and on the ECB's recommendations.

Besides the Single Supervisory Mechanism (SSM), which governs the prudential supervision of European banks, the formation of a banking union in Europe comprises a second and third pillar. The second pillar is the Single Resolution Mechanism (SRM), comprising the Single Resolution Board (SRB) and the national resolution authorities, responsible for the recovery and resolution of banks. The third pillar is the Deposit Guarantee Scheme (DGS), within which rules are laid down in relation to banks' guarantee obligation towards depositors. With the entry into force of the BRRD in 2015, the bank now also has to deal with the SRB, which is responsible for an orderly process surrounding the recovery and possible resolution of a bank.

This will require resolution plans and additional capital requirements (the Minimum Requirement for own funds and Eligible Liabilities, in short MREL) to be drawn up. In 2016, the bank reported to the SRB and made a further contribution to the Single Resolution Fund. However, the SRB has not yet provided any further details on the MREL and resolution planning. A transitional phase of four years applies.

The Hague, 16 March 2017

Managing Board

Menno Snel
Lidwin van Velden
Frenk van der Vliet

4.0

REPORT OF THE SUPERVISORY BOARD

4.0 REPORT OF THE SUPERVISORY BOARD

From the Chair of the Supervisory Board

The bank has delivered excellent performance in a competitive market with exceptionally low interest rates. The bank has gained a firm footing in the PPP market, enabling it to expand its financing capacity for the public sector investment agenda. This is consistent with NWB Bank's strategy to focus attention on its clients in the semi-public sector, maintaining a sharp focus on inexpensive financing tailored to the sector's requirements. The bank is increasing its focus on sustainable projects which are congruent with the role its clients fulfil in Dutch society. NWB Bank has acquired a solid position as one of the largest issuers of green bonds worldwide. Through this activity, the bank can make a difference.

The Supervisory Board is pleased with the results recorded in the past year, maintaining the upward trend that has unfolded over the past few years. The bank has a strong capital position in relation to the limited inherent risks, which are effectively managed. In a European context, the bank actively participates in the discussion on a leverage ratio calculation method that takes account of the special nature of promotional banks. The Supervisory Board is confident that, upon the favourable conclusion of this discussion in the near future, the bank will be able to resume dividend payments to its shareholders appropriate for the bank's solidity.

The Supervisory Board commends the manner in which a comparatively small organisation has managed to effectively meet the extensive reporting obligations and requirements of the ECB/DNB supervisory authority. Following talks with the supervisory authority, the Supervisory Board decided to transfer the activities of the Audit and Risk Committee to two separate committees, reflecting the heightened importance of effective risk management and the increased focus on non-financial risks.

In financing over one third of the public investment agenda, NWB Bank makes a significant contribution towards achieving societal objectives. It is clear that public investments must be intensified in the years ahead in order to strengthen the Dutch economy sustainably, primarily by means of financing the transition to sustainable energy and climate adaptation. The bank actively participates in the discussion on strengthening the Dutch investment potential. The Supervisory Board is keen to consider together with the Managing Board what role NWB Bank can fulfil in this regard. There is a natural role for the bank in the area of sustainability and climate policy. Nevertheless, maintaining a low risk profile is essential for the bank's business model.

The Supervisory Board liaised closely with the shareholders, including the shareholder water authorities and the Ministry of Finance, on important current issues. The shareholders were updated on the discussion concerning the design of the financing scheme for the national investment agenda. A key priority in this regard is the continuity of the financing of the water authorities, organised in the water authorities' own bank since the 1953 North Sea Flood. Wetterskip Fryslân, the Friesland Water Authority, hosted a visit by the Supervisory Board during the financial year, offering the Supervisory Board an excellent opportunity to familiarise itself with the water authority's plans and consequently enabling it to stay attuned to the contribution the bank can make.

We said farewell to Ron Walkier, who fervently served the bank for a quarter of a century, including in the role of Chair of the Managing Board since 2008. The Supervisory Board is delighted to have recruited Menno Snel as his successor. Menno has acquired relevant experience as executive director of the International Monetary Fund (IMF) and in his previous career at the Ministry of Finance and APG. The Supervisory Board is grateful to Lidwin van Velden and Frenk van der Vliet for acting as the interim Chair in the period between Ron's retirement and Menno joining the bank in September. The Supervisory Board wishes to thank the organisation for its dedicated efforts in the financial year.

Age Bakker

Supervision

Report on the Supervisory Board's oversight duties

The Supervisory Board held eight meetings in the reporting period, seven of which were regular meetings and one of which a strategy session.

The Supervisory Board performs its duties in accordance with the Supervisory Board Charter. The Supervisory Board regulations were updated in 2016 on the basis of the Guidelines on Corporate Governance Principles for Banks issued by the Basel Committee on Banking Supervision (BCBS), among other guiding principles. Regular agenda items discussed during the Supervisory Board's meetings were financial market developments, balance sheet developments and the financial results, lending activities, the bank's funding, hybrid capital, ECB supervision, risk management, the external auditor's report, strategic policy, the dividend and reserve policy, the General Meeting of Shareholders, the Annual Report and the Half-Year Report, the Policy Memorandum, the budget, corporate governance, compliance with the Insider Regulation, lifelong learning, the Supervisory Board's self-assessment, the rotation schedule, the reports of the internal audit department (IAD), and the reports of the Audit, Risk, and Remuneration and Appointment Committees.

In its capacity as the bank's supervisory body, the Supervisory Board was able to effectively perform its duties during the year under review, expressing its confidence in the policy pursued. The Managing Board provided the Supervisory Board with ample and up-to-date information, consulting the Supervisory Board, where needed, about the policy to be pursued. The Supervisory Board devoted particular attention to the topics below.

ECB supervision

In the past year, the ECB addressed various topics, which the Managing Board discussed with the Supervisory Board. The topics included the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), the SREP decision, the introduction of the Pillar 2 capital requirement and guidance, the Recovery Plan and the assessment of the Pillar 3 disclosure and changes in the regulations concerning the Capital requirements (CRR/CRD IV) and the resolution framework (BRRD/SRM). The Supervisory Board took the time, together with the Managing Board, to become conversant with these topics and wishes to express its appreciation for the professional manner in which the bank's relatively small organisation has complied with the extensive supervision requirements. The Supervisory Board has ascertained that the processes and plans adopted are consistent with the solidity pursued by the bank and that they support the bank's business model. The improvement areas arising from the discussion with the supervisory authority were also sufficiently discussed during meetings.

The follow-up on the findings of the ECB and the results of the new ECB audits were further topics discussed. In 2015, the ECB conducted a sector-wide audit of risk governance and appetite (RIGA). Based on the findings of the above audit, NWB Bank implemented the split-up of the Audit and Risk Committee into two separate committees with effect from August 2016. The conclusion arising from the RIGA audit was that NWB Bank has an effective risk governance structure in place. A number of points for attention were raised, such as scheduling sufficient time in between committee and plenary Supervisory Board meetings, which the bank has meanwhile addressed. The ECB also carried out an IT deep dive audit in 2016.

Risk management

In 2016, the Supervisory Board assessed the ICAAP and 2016 ILAAP as part of the capital adequacy and solvency management assessment. The Supervisory Board also discussed and approved the revised Risk Appetite Framework (RAF), a key element of which is the Risk Appetite Statement (RAS).

With effect from 1 January 2015, all banks are required to have a recovery plan in place, which sets out a bank's recovery procedure following situations of severe stress. Triggers have been agreed in the Recovery Plan, based on which action must be taken and issues are escalated to the crisis management team.

The recovery plan was updated in 2016. The main adjustments, including recovery triggers, were firstly discussed during the Risk Committee meeting and subsequently approved during the Supervisory Board meeting. The adjustments, which are consistent with the prudent manner in which the bank aims to prepare for stress situations, were partly prompted by the EBC/DNB recommendations.

Design and effectiveness of the bank's internal risk controls

The design and effectiveness of the Bank's internal risk management and control systems are regularly discussed by the Audit and Risk Committees. In 2016, attention was specifically paid to the design of the bank's operational risk management system. The Supervisory Board shares the view of the Managing Board that the internal risk management and control systems functioned effectively. These systems provide reasonable assurance that NWB Bank's financial reports contain no material misstatements.

Capital

With a view to meeting an expected leverage ratio obligation of 3% from 1 January 2018, NWB Bank began to raise hybrid capital (subordinated loans) to supplement the reservation of the full amount of its profits from 2011 onwards.

On 23 November 2016, the European Commission (EC) published proposed amendments to the Capital requirements regulations (CRR/CRD IV), including a change in the method of calculating the leverage ratio for public development credit institutions. The bank believes that this definition affirms its business model of a promotional bank. Due to the changed calculation method, NWB Bank's leverage ratio would amply exceed the level of the minimum requirement. Pending the European Commission's proposals, the bank has tentatively decided not to issue any further hybrid capital (Additional Tier 1) instruments.

Remuneration and policy governing remuneration of the Managing Board

In 2016, the Supervisory Board adopted the 2012 long-term variable remuneration and the 2015 variable remuneration of the Managing Board members as well as their performance contracts for 2016 in accordance with the remuneration policy adopted by the General Meeting. The long-term indicators set out in the performance contracts include retention of the bank's strong market position and the bank's strong credit rating.

Recruitment and selection

In 2016, the Supervisory Board recruited two new candidates as Supervisory Board members who will succeed Else Bos and Berend-Jan baron van Voorst tot Voorst.

During the Annual General Meeting held on 26 April 2016, Manfred Schepers was appointed to fill the vacancy arising from the retirement from office of Else Bos. During the General Meeting on 20 April 2017, Frida van den Maagdenberg will be put forward as a candidate to succeed Berend-Jan baron van Voorst tot Voorst.

Albertine van Vliet-Kuiper, who has served as a Supervisory Board member since November 2012, has indicated that she does not wish to seek reappointment for a possible further term of office from 2017 and therefore a vacancy has arisen on the Supervisory Board. The shareholder water authorities have put forward a number of candidates for this vacancy in accordance with their right of recommendation (Articles of Association, Articles 18.2 and 18.3). The Supervisory Board Selection Committee has selected a candidate as her successor from among the nominated candidates. NWB Bank expects to be able to officially nominate the candidate for appointment in the course of 2017 in a General Meeting of Shareholders to be held at a later date.

Human Resources

The current Employee Representative Body (ERB) was abolished and a Works Council was instituted with effect from January 2016. Both the Chair of the Supervisory Board and the Chair of the Remuneration and Appointment Committee attended a Works Council Meeting.

Charters

In following up on the BIS Guidelines on Corporate governance principles for banks dated July 2015 issued by the BCBS, NWB Bank reviewed and, where necessary, amended its existing regulations for the Supervisory Board, the Managing Board and the remuneration and appointment, Audit and Risk Committees in 2016. In June 2016, the ECB additionally issued a supervisory statement on governance and risk appetite. The supervisory statement is the outcome of the 2015 RIGA audit conducted by the ECB among significant banks, including NWB Bank. The recommendations arising from the RIGA audit at the bank, including splitting up the Audit and Risk Committee into two separate committees, have already been implemented by the bank.

The Dutch Corporate Governance Code Monitoring Committee published the revised Dutch Corporate Governance Code on 8 December 2016. The revised code took effect on 1 January 2017. The bank evidently operates largely in accordance with the revised code. The bank had, for instance, already decided to limit the maximum term of appointment for Supervisory Board members to eight years. The Supervisory Board will consider whether further amendments are required in the light of the revised code.

In making the amendments to the regulations (hereinafter referred to as 'charters') for the Supervisory Board, the Managing Board and the Remuneration and Appointment, Audit and Risk Committees in 2016, the bank opted to issue an English version only. The charters are available on the bank's website.

Achievement of business targets

The Managing Board's Policy Memorandum is discussed each year. At the end of 2016, the policy targets for 2016 were assessed and those for 2017 adopted. The achievement of the bank's business targets is a factor included in the annual assessment of the Managing Board's performance. These targets included an evaluation of NWB Bank's strategy, the implementation of central clearing, retention of the credit ratings equal to that of the Dutch State, achievement of the benchmark return as well as achievement of the CSR objectives. The Managing Board largely achieved their 2016 targets.

Strategy and risks

In September 2016, the Managing Board and the Supervisory Board discussed NWB Bank's strategy during a separate session. The topics covered during the strategy session included the leverage ratio obligation, the bank's dividend policy, the public discussion on a national investment institution as well as the diversification of the bank's lending activities. The bank will proceed with its prudent diversification strategy with a view to offering the best possible services to the semi-public sector.

The Audit and Risk Committees, this reporting year operating as separate committees for the first time, focus primarily on monitoring financial developments at the bank and the effectiveness of the bank's internal risk management system. The chairs of the Audit and Risk Committees report directly to the plenary Board on the basis of meeting reports.

Financial reporting
The design of the internal quarterly report has been revised to incorporate a more specific focus on all risk categories to which the bank is exposed. The report is discussed at length every quarter, firstly by the Audit and Risk Committees and subsequently by the plenary Board. The report includes highlights from the Managing Board, in which it sets out its views on the bank's financial developments.

Relationship with shareholders
One informal consultation took place with the shareholders of NWB Bank in 2016. The topics discussed included the current status of the bank's results, the regulations, dividend policy and the leverage ratio obligation, the introduction of Menno Snel, the Kremers report/non-paper Investment and Development Institution for the Netherlands (ION), the status of the selection process for a water authority Supervisory Board member, learning by doing among the shareholders as well as the Supervisory Board and the remuneration of Supervisory Board members.

Corporate Social Responsibility
The Supervisory Board sets great store by NWB Bank properly implementing its corporate social responsibility (CSR) policy. To NWB Bank, CSR means enriching its objectives as a promotional bank with a proactive approach, in order to make a positive impact in social, environmental and economic terms. As in previous years, in 2016 NWB Bank issued a successful Water Bond (green bond), the first such bond issued by the bank in dollars. Water Bond issues serve to underline NWB Bank's role as a robust and sustainable financing partner for the Dutch public sector.

For a report on NWB Bank's CSR policy, please see page 55.

Committee reports

Audit and Risk Committees
In the year under review, the Audit and Risk Committee held six meetings in the presence of the Managing Board and the internal auditor. The external auditor attended five of the six Audit and Risk Committee meetings. Based partly on an ECB recommendation, the bank split up its Audit and Risk Committee with effect from August 2016 into two separate committees, the Audit Committee and the Risk Committee. The bank opted to establish two separate committees composed of the same Supervisory Board members, but with different chairs. The committees operate in accordance with the Audit Committee Charter and the Risk Committee Charter respectively.

A separate consultation took place between the Audit and Risk Committee and the internal auditor, and separately with the external auditor.

During the reporting year, the Audit Committee paid particular attention to the effects of the low money and capital market interest levels and to the broad liquidity positions in the market. The interest rates had an impact on, among other factors, the collateral management of derivatives positions, which contributed to the considerable expansion of the balance sheet total. Managing the non-risk weighted leverage ratio and the consequential capital management issues formed items of discussion during all meetings. Nevertheless, the Audit Committee concluded that – in line with policy – the sensitivity of the result to interest rate movements is markedly low.

The Risk Committee paid particular attention to reporting on the soft controls in the light of the increased focus on culture and conduct. Heightened focus was also placed on operational risk management, compliance (particularly client integrity and client interests) and credit risk, associated with aspects including the expanded PPP and risk-weighted assets (RWA) portfolios.

Annually recurring topics are money and capital market developments, the quarterly results, the half-year and annual figures, the dividend and reserve policy, funding, fund transfer pricing, the budget, RAF/RAS, ICAAP/ILAAP, various stress scenarios (including ECB), risk management and the reports of the external and internal auditors.

In 2016, the following specific topics were also addressed: ECB supervision, hybrid capital, Corep and Finrep reporting obligations arising from the CRD IV Directive, following up on the ECB recommendations concerning SREP, adjusting the operational risk management framework, the transition process to the new external auditor, the audit plan, the three lines of defence audit, trilateral consultations, soft controls reporting, the recovery plan update, the results of the Systematic Analysis of Integrity Risk by DNB, the SREP decision, MREL, the ECB assessment Pillar 3 disclosure, the Oliver Wyman/Kremers report, the Audit Committee Charter, the Risk Committee Charter, the ALCO Charter, the Credit Committee Charter and the Internal Audit Charter.

Furthermore, the Supervisory Board considered the external auditor's report, including the management letter, for the 2015 reporting year and for the first half of 2016, and discussed the external auditor's findings on financial developments, financial reporting and the audit of the financial statements.

Remuneration and Appointment Committee

The Remuneration and Appointment Committee held three meetings in the year under review. The following topics were considered: the remuneration policy for the Managing Board, a comparison of Managing Board and employee remuneration, the Supervisory Board's remuneration proposal, the Managing Board's 2012 long-term variable remuneration and 2015 variable remuneration, the 2016 revised performance contract and the 2017 performance contract for the Managing Board members, the 2015 remuneration report, the Future-Oriented Banking package and the lifelong learning programme for 2017.

In addition, the Remuneration and Appointment Committee members were closely involved in the recruitment and selection procedures for the new Chair of the Managing Board and the successors to Supervisory Board members Else Bos and Berend-Jan baron van Voorst tot Voorst.

The Remuneration and Appointment Committee operates in accordance with the Remuneration and Appointment Committee Charter.

Remuneration policy

Further details of the bank's remuneration policy are provided in the Remuneration Report on page 99.

Internal organisation

Composition of the Managing Board and Supervisory Board

Composition of the Managing Board

Details of the members of the Managing Board can be found on pages 10 to 11 of this annual report. The ratio of men to women on the Managing Board currently is 67% to 33%. Although the statutory provision concerning gender balance no longer applies from 1 January 2016, the Supervisory and Managing Boards seek to have at least 30% male and at least 30% female members on their respective boards.

The Chair of the Managing Board, Ron Walkier, retired with effect from the 26 April 2016 General Meeting. Menno Snel was appointed as his successor during the same meeting with effect from 1 September 2016. In the interim period, Lidwin van Velden and Frenk van der Vliet jointly assumed the duties of the Chair of the Managing Board, with Lidwin van Velden serving as acting Chair.

Composition of the Supervisory Board – details

Details of the members of the Supervisory Board can be found on pages 12 - 14 of this report.

Composition of the Supervisory Board – profiles, competencies and diversity

To ensure the proper composition of the Supervisory Board of NWB Bank at all times, its members are appointed taking account of the nature of the Bank's operations and activities, and the required expertise and background of the Supervisory Board members. They must be aware and capable of assessing national and international social, economic, political and other developments that are relevant to NWB Bank.

The Supervisory Board currently has six members. The ratio of male to female members is 67% to 33%. An overall profile has been drawn up to provide guidance on the composition of the Supervisory Board and the appointment of its members. In addition, an individual profile is drawn up for each vacancy that arises on the Supervisory Board, which is in line with the overall profile and which candidates must meet. The Supervisory Board seeks to achieve diversity and gender balance in its composition, whereby factors such as age, gender, expertise and social background play a role. The current composition of the Supervisory Board is considered to be balanced, diverse and representing expertise. With the intended appointment of Frida van den Maagdenberg as a Supervisory Board member on 20 April 2017, the Supervisory Board will comprise four men and two women. The vacancy for the seventh Supervisory Board member will be filled in the course of the year. Age Bakker serves as Chair and Maurice Oostendorp as Deputy Chair of the Supervisory Board.

Supervisory Board members Age Bakker, Petra van Hoeken, Maurice Oostendorp and Manfred Schepers possess in-depth financial expertise, have a background in banking and have knowledge of the international money and capital markets and risk management. The other Supervisory Board members, Peter Glas and Albertine van Vliet-Kuiper have ample experience in public administration and government policy and have networks in government circles. With her intended appointment taking effect from the 20 April 2017 General Meeting, Frida van den Maagdenberg will contribute general administrative experience in the semi-public sector and knowledge of financing and ICT, with which the balanced and diversified composition of the Supervisory Board will be maintained.

Due to the diversity in the composition of the Supervisory Board, the individual members complement each other in terms of their specific knowledge and experience, and collectively constitute a balanced representation of the knowledge and experience required of NWB Bank's Supervisory Board.

Composition of the committees

Audit and Risk Committees

August 2016 marked the split-up of the Audit and Risk Committee into two separate committees. Both committees have at least three members plus a Chair. The committees are currently composed of the same Supervisory Board members, but with different chairs.

The members of the Audit Committee are Maurice Oostendorp, Chair, Age Bakker, Petra van Hoeken and Manfred Schepers. Petra van Hoeken, Chair, Age Bakker, Maurice Oostendorp and Manfred Schepers Risk Committee.

The Supervisory Board members will evaluate this structure after one year. The internal auditor will attend the meetings of both committees. The external auditor will attend the Audit Committee meetings and at least one Risk Committee meeting each year.

Remuneration and Appointment Committee

The members of the Remuneration and Appointment Committee are: Peter Glas, Chair, Age Bakker and Albertine van Vliet-Kuiper. The intended successor to Albertine van Vliet-Kuiper is expected to be appointed in the course of 2017. After the intended appointment of Frida van den Maagdenberg as Supervisory Board member on 20 April 2017, she will join the Remuneration and Appointment Committee as member.

All members have sufficient knowledge and experience of remuneration policies and appointments, gained from their different backgrounds. Peter Glas chairs the committee. As Chair of the Managing Board, Menno Snel has a standing invitation to attend committee meetings.

Supervision of quality assurance

Self-assessment

Under the Dutch Banking Code, in addition to the annual assessment, the Supervisory Board is required to perform a self-assessment under the supervision of an independent expert once every three years. This has been laid down by the bank in the Supervisory Board Charter. In 2015, the Supervisory Board evaluated its own performance under the supervision of an independent expert. In early 2017, the Supervisory Board evaluated its own performance with the aid of an online evaluation tool. This evaluation included the following aspects:

- the set-up and composition of the Supervisory Board
- the Chair's performance
- the Supervisory Board's various roles as a supervisor, as the Managing Board's 'employer' and as an adviser
- the interaction between the Supervisory Board's members, between the Supervisory Board and the Managing Board and between the Supervisory Board and third parties/stakeholders.

The self-assessment report brought a number of aspects to light, including that the Supervisory Board members have ample current knowledge and are able to strike a balance between their monitoring and advisory duties. It was pointed out that greater focus should be placed on their advisory role towards both the Managing Board and the organisation. The Supervisory Board's size is deemed efficient, particularly in the light of achieving a balance between its monitoring and advisory role.
The Supervisory Board interacts effectively with the Managing Board.

As in the previous year, the Supervisory Board focuses on appropriately allocating their efforts towards the short and long-term strategies, again closely monitoring progress on strategy. The formal structure and preparation of meetings is well organised and the Chair facilitates the full participation of the Supervisory Board members. In terms of the internal organisation, the Supervisory Board should gain a deeper understanding of ICT and HRM-related topics (particularly in the area of successor potential within the bank). In 2016, the Supervisory Board restructured its agenda to include market developments and client relationships as standard items on its meeting agenda. By initiating prior consultations before the plenary Supervisory Board meetings, the Board endeavours to make it possible to discuss topics that are not on the agenda as well, such as non-financial matters.

Education

Within the context of the lifelong learning programmes for the Managing and Supervisory Board members, various presentations were again held by internal and external experts in 2016. The themes were central clearing, market and clients, resolution and regulatory developments in European banking supervision and Fintech/Blockchain. In addition, individual members of the Supervisory Board attend external courses at their own request, depending on their expertise and experience. The effectiveness of lifelong learning initiatives is assessed annually. Prior to their appointment, proposed new Supervisory Board members must follow an in-house induction programme covering general financial, social and legal matters, financial reporting, the specific features of NWB Bank and its business operations and the responsibilities of a Supervisory Board member.

Independence

The Supervisory Board believes that the composition of the Supervisory Board is such that its members are able to operate critically and independently of one another and of the Managing Board. In this context, one Supervisory Board member, Petra van Hoeken, is a director at Rabobank, with which NWB Bank maintains a longstanding and significant relationship. The overall profile for the composition and appointment of Supervisor Board members sets requirements in this respect.
In addition to meeting those requirements, new members

must satisfy the specific criteria included in the relevant individual profiles. The Supervisory Board promotes independence through the diversity of its composition.

Information from external experts
The Supervisory Board has the option of making inquiries from external experts if warranted by the fulfilment of its duties. For instance, if and when needed, the Board requests information from NWB Bank's external auditor. The Board engaged external agencies in 2016 to recruit a new Chair of the Managing Board as well as new Supervisory Board members. External experts are consulted on lifelong learning courses. Information is also obtained by attending Works Council meetings.

Conflicts of interest
The members of the Supervisory and Managing Boards have informed NWB Bank of all other relevant positions they hold. No potential conflict of interest occurred in the reporting year.

Internal auditor
The head of the IAD attended all the meetings of the Audit and Risk Committees. Both committees also held separate meetings with the internal auditor and the external auditor to discuss topics such as mutual relationships, as well as findings and any bottlenecks identified in the past year. The IAD presents its findings for the year under review in quarterly reports, which are discussed during meetings of the Audit and Risk Committees. The IAD also presents its annual audit plan. The Supervisory Board is informed of the plan by the Audit and Risk Committees, and ensures that the IAD's recommendations are followed up.

External auditor
In addition to the internal auditor, the bank's external auditor also attends all Audit Committee meetings and at least one Risk Committee meeting. Furthermore, a separate consultation took place between the Audit Committee, the Risk Committee, the head of the IAD and the external auditor to explicitly discuss points requiring attention as well as mutual relationships.

In accordance with the appointment of Ernst & Young Accountants LLP (EY) by the General Meeting held on 23 April 2015, the audit firm became NWB Bank's new auditor with effect from the 2016 financial year. Serving as the bank's external auditor, KPMG audited the financial statements of NWB Bank from the 2007 financial year until the 2015 financial year.

Organisational matters

Reappointment/appointment of Managing and Supervisory Board members
The following appointments and reappointments were approved during the 26 April 2016 General Meeting: the appointment of Menno Snel as Chair of the Managing Board, the appointment of Manfred Schepers as a Supervisory Board member and the reappointment of Age Bakker as Chair of the Supervisory Board.

The succession of Supervisory Board member Albertine van Vliet-Kuiper will be on the agenda of the General Meeting to be held on 20 April 2017. Albertine van Vliet has served in that role for four years. She has announced that she does not wish to seek reappointment for a possible further term of office. The Supervisory Board wishes to express its gratitude to her for the outstanding scrutinising role she has played and the acuity she has demonstrated in terms of stakeholders' interests and mutual relations.

Albertine occupied a seat on the Supervisory Board to which a right of recommendation for the 'shareholder water authorities' is attached. The Supervisory Board selection committee has meanwhile selected a candidate as the successor to Albertine van Vliet from among the nominated candidates. The bank expects to be able to officially confirm the candidate as Albertine van Vliet's successor during a General Meeting of Shareholders to be determined in the course of 2017.

The reappointment of Maurice Oostendorp as a Supervisory Board member and the reappointment of Lidwin van Velden as a Managing Board member will be on the agenda of the 20 April 2017 General Meeting.

Attendance

The Supervisory Board and its committees recorded an attendance rate of 97%.

Compliance with Corporate Governance principles

The Supervisory and Managing Boards bear responsibility for NWB Bank's effective corporate governance structure and for ensuring compliance with the governance principles, including the application of the Dutch Banking Code. For further information on compliance with the Dutch Banking Code by NWB Bank, please see the Summary of compliance with the principles of the Dutch Banking Code.

The other corporate governance topics are discussed in the Corporate Governance chapter on page 46 of this report.

A word of thanks

In 2016, the Managing Board members and employees of NWB Bank once again undertook significant efforts on all fronts. The Supervisory Board wishes to thank all the employees and Managing Board members for their dedicated efforts, and expresses its appreciation for the results achieved.

The Hague, 16 March 2017

Supervisory Board

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

5.0

CORPORATE GOVERNANCE

5.0 CORPORATE GOVERNANCE

As a bank of and for the public sector, NWB Bank has a special responsibility towards society. In terms of corporate governance, this means that the bank should foster its robust financial position, while practising transparency in its governance and considering the interests of all stakeholders. NWB Bank's corporate governance practices include compliance with the Dutch Corporate Governance Code, the Dutch Banking Code and the Code of Conduct set out in the 'Future-Oriented Banking' package issued by the Dutch Banking Association (NVB).

The Supervisory and Managing Boards bear responsibility for NWB Bank's effective corporate governance structure and for ensuring compliance with the governance principles.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code contains principles and best practice provisions that govern the relationships between the Managing Board, the Supervisory Board, the shareholders and the General Meeting of Shareholders. The code applies to certain Dutch listed companies. NWB Bank is not a listed company and therefore is not required by law to apply the Dutch Corporate Governance Code. However, NWB Bank has elected to apply the code taking account of the bank's specific feature, which is that its shares may only be held by the State of the Netherlands, water authorities and other legal entities governed by public law. The principles and best practice provisions relating to the one-tier governance structure and depositary receipts for shares have been excluded on account of the bank's two-tier structure and the fact that no depositary receipts are issued for the bank's shares. Furthermore, NWB Bank has not established a policy on bilateral contacts with shareholders. As all of NWB Bank's shares are registered, the bank knows its shareholders and keeps a shareholders' register, in which the names and addresses of the shareholders are recorded as well as the date on which they acquired shares and the amounts they paid up on each share. The bank maintains direct contact with its shareholders and/or their representatives throughout the year. The bank has no formalised policy in this regard. Similarly, the principle and best practice provisions relating to the provision of information to and the logistics of the Annual General Meeting have not been formalised.

The Dutch Corporate Governance Code Monitoring Committee published the revised Dutch Corporate Governance Code in December 2016. The revised code took effect on 1 January 2017. The most important changes are a focus on long-term value creation and the introduction of culture as a component of effective corporate governance.

A number of sections of the Corporate Governance Code have been updated, such as the IAD function, the internal risk management and control systems and the procedure for reporting misconduct and irregularities. NWB Bank will further assess the revised Dutch Corporate Governance Code in 2017 and implement it where necessary.

Future-Oriented Banking

The Future-Oriented Banking package consists of three sections: the Social Charter, the Dutch Banking Code and the Code of Conduct. The Social Charter describes the role banks should fulfil in society and the shared values of the banking sector. The Dutch Banking Code safeguards good governance by all Dutch banks and sets out principles for the controlled and ethical conduct of business, effective risk management as well as the structure of the Managing and Supervisory Boards. The NWB Bank Code of Conduct provides rules for employees on practising their profession in a prudent and ethical manner.

Dutch Banking Code

The Dutch Banking Code is a form of self-regulation. The code applies to Dutch banks. The Dutch Banking Code is designed to make a major contribution to public trust in banks. The principles of the code therefore emphasise the importance of the controlled and ethical conduct of business. The Dutch Banking Code contains the following elements:

- the controlled and ethical conduct of business
- principles for executive and supervisory boards
- adequate risk policies
- adequate audit processes
- a prudent, controlled and sustainable remuneration policy.

For further information on compliance with the Dutch Banking Code by NWB Bank, please see the Summary of compliance with the principles of the Dutch Banking Code.

Comply-or-explain-statement in the Dutch Banking Code

NWB Bank fully acknowledges the significance of the Social Charter and the Dutch Banking Code and complies with its principles.

Rules of Conduct and the banker's oath

With effect from 1 April 2015, all employees and specific external advisers are required to take the banker's oath (which includes the related Rules of Conduct and a disciplinary system). The banker's oath is a personal declaration by an internal or external employee, which is required to be taken in the presence of a higher ranking individual. After taking the oath or affirmation, the internal or external employee must sign the oath or affirmation, which has been set out in writing, in the presence of the higher ranking individual. Upon taking and signing the banker's oath, external and internal employees must abide by the Rules of Conduct and the disciplinary rules. The Rules of Conduct comprise the following aspects:

- working with integrity and due care
- weighing interests carefully
- putting the client's interests first
- complying with laws, regulations and rules of conduct;
- keeping confidential information secret
- being transparent and honest about one's conduct and being aware of one's responsibility towards society
- contributing to society's confidence in the bank.

Notes

The following paragraphs address a number of focus area with regard to corporate governance. They also address whether and, if so, in what way further steps have been taken in the 2016 reporting period compared with 2015.

Works Council

A Works Council was established in January 2016. The Works Council operates in accordance with the Works Council Regulations, which includes rules on the composition, term of office, elections and procedure. In principle, the Works Council holds monthly meetings. Works Council meetings also serve as informal contact moments for sharing information with the HRM department. In principle, it has been agreed to hold four meetings a year between the Works Council and a Managing Board member. A Supervisory Board delegation attended two of the three meetings in total with a Managing Board member in 2016.

Controlled and ethical conduct of business

NWB Bank attaches great value to its reputation as a solid and respectable bank for the public sector. Checks and balances and integrity therefore play an important role in the bank's control mechanism. NWB Bank aims to ensure that its employees leave no doubt that clients and investors can be completely confident in using the bank's services and secure in the knowledge that their funds are safe. The bank's Managing and Supervisory Board members are aware of the fact that they set an example for all of the bank's employees.

Conduct and culture

The Managing Board promotes responsible conduct and a healthy workplace culture.

In 2016, attention was paid to the positive aspects of NWB Bank's engaged and open organisational culture, and to the potential risks associated with such a culture. Key points of attention for the bank's employees are that they should maintain a critical attitude towards each other and have an outward-looking focus. The HRM department organised an organisation-wide workshop on those topics, 'NWB Bank as a more influential team'.

Putting the client's interests first

NWB Bank is a major player in financial service provision to the Dutch public sector. It can effectively fulfil its duties only if society, and its clients in particular, are confident about the organisation and the integrity of the bank's dealings with its business contacts. Accordingly, consciousness, engagement and reliability are the core values embraced by NWB Bank. Employees are expected to promote these core values while carrying out their duties.

The bank lends high priority to account management aimed at borrowers and product development. NWB Bank's relationship management centres on bridging the knowledge gap between the public sector and the financial world. To bridge the knowledge gap, the bank organises educational client events, employees participate in seminars as speakers and client visits are made to individual clients. Moreover, the bank is alert to market and other developments and to (changing) client needs, and responds to them, where possible, by providing solutions, potentially including new products.

NWB Bank publishes a client newsletter called 'NWB Bank Public Sector Update' to keep clients updated on current developments in the public sector.

Compliance and integrity

NWB Bank has assigned the compliance function to its legal and compliance department. The compliance function aims to promote, monitor and ensure compliance with the existing laws and regulations as well as the internal procedures and rules of conduct that are relevant to the organisation's integrity and associated reputation. The field of compliance comprises conduct-related risk categories.

As part of its annual audit plan, the IAD carries out compliance audits to assess not only whether the bank complies with the existing laws and regulations as well as internal procedures and rules of conduct, but also to test the effectiveness of these procedures and rules of conduct and their correct application across the organisation.

In 2016, the screening policy for employees, external staff and trainees was adjusted.

Supervisory Board

General

The Supervisory Board performs its duties in accordance with the Supervisory Board Charter. The Supervisory Board Regulations were updated in 2016 and are now only available in English, which explains the document name 'Supervisory Board Charter'. The charter contains rules governing the Supervisory Board's composition, the division of duties among its members and its working methods, among other topics. The charter also contains provisions governing conflicts of interest and the Supervisory Board's dealings with the Managing Board and the shareholders.

The Supervisory Board Charter implements the applicable provisions of the Capital Requirements Regulation (575/2013) (CRR), the Financial Supervision Act *(Wet op het financieel toezicht - Wft)*, the Dutch Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014 *(Regeling beheerst beloningsbeleid Wft 2014 - Rbb)*, the Financial Undertakings (Remuneration Policy) Act *(Wet beloningsbeleid financiële ondernemingen - Wbfo)*, the Guidelines on Corporate governance principles for banks, the Dutch Corporate Governance Code and the Future-Oriented Banking package.

Committees

The Supervisory Board has composed an Audit, Risk, and Remuneration and Appointment Committee from among its members. Following a recommendation made in an ECB audit themed around Risk Governance and Risk Appetite, the Audit and Risk Committee was split up into the Audit Committee and the Risk Committee in the course of 2016.

Audit and Risk Committees

The remit of the Audit and Risk Committees is to prepare the Supervisory Board's decision-making. The Audit Committee operates in accordance with the Audit Committee Charter and the Risk Committee in accordance with the Risk Committee Charter.

Remuneration and Appointment Committee

The Supervisory Board has established a Remuneration and Appointment Committee whose remit includes putting forward certain proposals to the Supervisory Board, evaluating the remuneration policy, monitoring senior management remuneration directly (including the managerial audit positions at the bank) and preparing the remuneration report. The Committee operates in accordance with the Remuneration and Appointment Committee Charter.

Profile

An overall profile has been drawn up to provide guidance on the composition of the Supervisory Board and the appointment of its members. The Supervisory Board aims to achieve a diverse and balanced composition. The profile is in line with the requirements set out in the Dutch Corporate Governance Code. In addition to the overall profile, an individual profile is drawn up for each vacancy that arises on the Supervisory Board. The individual profile must be in line with the overall profile. Although the statutory provision concerning gender balance no longer applies from 1 January 2016, the Supervisory and Managing Boards seek to have at least 30% male and at least 30% female members on their respective boards. The ratio of men to women on the Supervisory Board is currently 67% to 33%.

Managing Board

Appointment and composition

NWB Bank is managed by a Managing Board comprising three members. The General Meeting of Shareholders appoints Managing Board members, nominated by the Supervisory Board, for a four-year period. The portfolios of operations for which the members of the Managing Board bear responsibility are stated on the bank's website and on pages 10 and 11 of this Annual Report. The ratio of men to women on the Managing Board is 67% to 33%.

Managing Board Charter
The Managing Board's procedures are set out in the Managing Board Charter. The Managing Board Regulations were updated in 2016 and are now only available in English, which explains the document name 'Managing Board Charter'. The charter contains rules relating to the division of the Managing Board's duties, its procedures and its decision-making process, among other things. It also contains provisions governing conduct and culture, the Managing Board's dealings with and its method of providing information to the Supervisory Board, the remuneration policy and conflicts of interest. In addition, the charter implements the applicable provisions, including those set out in the CRR, the Wft, the Rbb, the Wbfo, the Guidelines on Corporate governance principles for banks, the Dutch Corporate Governance Code and the Future-Oriented Banking package.

Lifelong learning
NWB Bank considers lifelong learning by Managing and Supervisory Board members to be vital. Against this background, in 2016 presentations were held by external experts and a staff member. These presentations focused on central clearing, market exploration and customer intelligence, resolution and regulatory developments in European banking supervision, and Fintech/Blockchain.

In addition, the Managing Board members attended various national and international conferences, workshops and seminars on topics including European banking supervision, securitisation, governance for banks and the Minimum Requirement for own funds and Eligible Liabilities (MREL).

Future new members of the Supervisory and Managing Boards must attend an induction programme addressing, at a minimum, general financial, social and legal matters, financial reporting, the specific features of NWB Bank and its business activities, and the responsibilities of a Supervisory or Managing Board member.

Audit
The IAD, which operates independently within NWB Bank, carefully, expertly and objectively audits and tests the management of risks associated with the bank's business and other activities. The IAD also issues recommendations on adequate organisational structure and risk management. The IAD operates in accordance with the Internal Audit Charter. This charter contains rules relating, among other things, to the IAD's mission, remit, independence and objectiveness, and expertise and integrity.

The head of the IAD reports to the Chair of the Managing Board and also has a reporting line to the Chair of the Audit Committee. The head of the IAD attends the meetings of the Audit and Risk Committees. The external auditor also attends the Audit Committee meetings, as well as a Risk Committee meeting at least once a year. In 2016, in line with the Dutch Banking code, two trilateral consultations took place with the external auditor and the DNB and ECB supervisory authorities. During these consultations, views are exchanged about the bank's risk profile, its planned activities and the results of its activities.

At the Managing Board's request, the IAD may participate as a non-voting member in steering committees on strategically important projects. The IAD also supports the organisation in implementing and reporting on Corporate Social Responsibility (CSR). Furthermore, the IAD verifies whether all Global Reporting Initiative (GRI) aspects are included in the bank's CSR reporting and ensures that such reporting is based on the internal materiality analysis.

Remuneration policy
The remuneration policy for both Managing Board members and employees is in conformity with the CRR, the Wbfo, the Rbb and the Dutch Corporate Governance Code. The remuneration policy was approved by the Supervisory Board and is reviewed every two years by the

Remuneration and Appointment Committee. The General Meeting of Shareholders adopts the remuneration policy pertaining to the Managing Board members, further details of which are provided in the Remuneration Report included in this Annual Report.

Other corporate governance aspects

In 2016, NWB Bank further assessed and, where necessary, implemented the Guidelines on Corporate Governance Principles for Banks issued by the Basel Committee on Banking Supervision.

In control-statement

The Managing Board is of the opinion that, in the year under review, the internal risk controls and systems were effective. They provide reasonable assurance that NWB Bank's financial reports contain no material misstatements. The risk governance section of the Report of the Managing Board and the risk management section of the financial statements contain a further substantiation of the in control statement.

Responsibility statement

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

The Hague, 16 March 2017

Managing Board

Menno Snel
Lidwin van Velden
Frenk van der Vliet

6.0

CORPORATE SOCIAL RESPONSIBILITY

6.0 CORPORATE SOCIAL RESPONSIBILITY

As a promotional bank focusing on added social value, NWB Bank's interests and values differ from those of purely commercial parties. Based on its core values of consciousness, engagement and reliability, NWB Bank has linked its CSR policy to four themes. These themes are derived from the bank's general objectives, and are therefore consistent with and help to achieve these objectives.

General

This can be seen in the bank's chosen CSR themes:

- sharing financial expertise with the public sector
- sustainable and engaged financing
- sustainable and social operations
- ethical and transparent activities

Economic activity and energy consumption are inextricably linked. Energy is essential for the production and distribution of all goods and services. A large-scale energy transition is needed to combat climate change. Authorities and public institutions in the Netherlands play a key role in the transition to a circular economy. The Dutch government has set itself the goal of generating 14% of the energy consumed using sustainable methods by 2020 and 16% by 2023. This is equivalent to a 1.5% average annual saving on energy consumption and 100 petajoules in energy savings as of 2020. These agreements have been reached with market parties, local authorities and social institutions and are set out in the Energy Agreement.

NWB Bank's customers not only play a vital role in achieving the goals in the Energy Agreement, but often take the lead in realising these goals and in most cases have high aspirations in this area. For instance, the water authorities, besides playing a pioneering role in climate adaptation and mitigation, are also frontrunners in limiting their own energy consumption and generating their own sustainable energy. In 2015, the water authorities already provided 30% of their own energy needs by means of self-generated energy. Their ambition is for this share to rise to 40% by 2020, in order to become energy-neutral as soon as possible thereafter.

Housing corporations own roughly one third of the housing stock in the Netherlands. The 'zero-energy' concept is being applied more and more frequently to new developments, and materials from demolished houses are reused. Investments in making the existing housing stock sustainable are not always economically viable. Despite this, the sum invested by housing corporations doubled between 2011 and 2014 and energy consumption in housing corporation homes fell. In every case, the energy transition costs money and requires financing.

NWB Bank's mission as a promotional bank is to provide financing to its customers on the most favourable terms possible and to take full advantage of its innovative capability to keep the socio-economic costs of public facilities in the Netherlands as low as possible. This includes the costs of the energy transition. NWB Bank's excellent creditworthiness, as reflected by the highest ratings AAA/Aaa (Standard & Poor's/Moody's), enables the bank to secure affordable financing in the international money and capital markets. This affordable financing benefits NWB Bank's customers and our joint ambitions to establish a circular economy.

Developments in 2016

Water Bonds

Following two previous successful issues of Water Bonds in 2014 and 2015, NWB Bank issued a Water Bond again in 2016. This year, a 10-year USD 1 billion bond was issued, which was increased to USD 1.25 billion later in the year due to sustained demand from the market. A total outstanding volume of €2.6 billion in green bonds issued places NWB Bank in fifth place in the group of SSA (sovereigns, supranationals and agencies) issuers.

The Water Bonds are listed on the Luxembourg Green Exchange (LGX). The issuing of these Water Bonds serves to underline NWB Bank's role as a robust and sustainable financing partner for the Dutch public sector. By issuing the Water Bonds, NWB Bank continues to attract new investors and expands the market reach of green bonds. In addition to traditional investment considerations, such as investment safety and the risk/return trade-off, investors largely purchased the bonds because of their interest in supporting climate-friendly projects under their investment mandate.

The yields from Water Bonds are earmarked for the financing of the Dutch water authorities. These authorities, with a total workforce of around 11,000 employees, are responsible for flood prevention, water management and water quality. The water authorities ensure that, despite elevated sea levels and rivers carrying more water, we can continue living, working and relaxing safely. The water authorities are in step with the times and adopt innovative solutions in order to perform their work more effectively, intelligently, sustainably and affordably. The utilisation of self-generated energy and the useful application of residual heat and recovered raw materials, solar panels and wind turbines have become an integral part of the work of the water authorities. To ensure that, despite all challenges, their infrastructure is adequate to its tasks, the water authorities annually invest €1.3 billion. A substantial part of those investments is financed with loans, the majority of which are provided by NWB.

The Water Bonds accordingly contribute to the performance delivered by the water authorities with their investments. The carbon footprint of the water authorities decreased by 4% in the period 2011 – 2013, and by as much as 16% in the years 2013 – 2015.

Details of the Water Bond are provided in NWB Bank's *Green Bond Newsletter*. In 2016, NWB Bank worked on a 'social bond' to finance social housing loans. This is expected to result in the issue of the first 'Affordable Housing Bond' in 2017.

Collaboration with the European Investment Bank (EIB)

The EIB and NWB Bank signed a new loan agreement for €250 million at the end of 2016. The EIB will make this amount available to NWB Bank, which will in turn invest €500 million in enhancing the sustainability of social housing and helping the water authorities to achieve their circular economy ambitions. The loan is a follow-up to the earlier collaboration which saw to the funding of €800 million in social housing, environment, knowledge economy and water sector projects in 2016. This collaboration between the two promotional banks is designed to provide the public sector in the Netherlands with funding at even more attractive rates. The EIB loans also enable NWB Bank to offer smaller projects and customers, who would otherwise be ineligible, the opportunity to benefit from inexpensive EIB financing. This means they spend less on interest payments, which should, among other things, contribute towards water authority projects and keeping social housing affordable.

‘NWB BANK HAS A SIMILAR STRATEGY WHEN IT COMES TO REACHING SMALLER PROJECTS. WHEREAS THE EIB IS THE LARGEST MULTILATERAL FINANCIAL INSTITUTION IN THE WORLD IN TERMS OF VOLUME, WE ARE A RELATIVELY SMALL ORGANISATION. SO IN ORDER TO REACH SMALLER PROJECTS, WE ALWAYS WORK WITH LOCAL INTERMEDIARIES. WE ARE BUILDING ON AN EXCELLENT PARTNERSHIP THAT STARTED AT THE END OF 2014 AND THAT HAS RESULTED IN €800 MILLION IN SMALL PUBLIC INVESTMENTS IN THE NETHERLANDS.’

EIB Vice President Pim van Ballekom

Water innovation prize

Every year, the Dutch Association of Regional Water Authorities (Unie van Waterschappen) and NWB Bank award the Water Innovation Prize to innovative projects that are in keeping with the tasks of the water authorities: water safety, clean water, sufficient water and water awareness. This year, there were 160 entries. More than 4,000 people voted via *www.waterinnovatieprijs.nl* for the Public Award, a record number in the history of the Water Innovation Prize. An expert jury, with the participation of NWB Bank, chaired by Lidewijde Ongering, secretary-general of the Ministry of Infrastructure and the Environment, particularly praised the winners for their environmentally aware approach and eye for sustainability.

Netherlands Investment Agency for EFSI Declaration of Intent

The NIA and NWB Bank signed a declaration of intent in October. Both the NIA and NWB Bank seek to help achieve social and government objectives by increasing social investment and funding capacity. The NIA helps to realise effective and efficient socially desirable investments, particularly in the high-risk phases when the market has not yet responded. By doing so, it promotes optimum harmonisation with the European Investment Plan and the funding possibilities of the EIB and the European Fund for Strategic Investments (EFSI). NWB Bank is able to share its financial banking knowledge and expertise, and offer any additional financing options via the NWB Bank balance sheet.

International Corporate Social Responsibility (ICSR) agreement

At the end of October, the government, NWB Bank, 12 other Dutch banks, the Dutch Banking Association (NVB) and a number of stakeholders signed the ICSR agreement for the banking sector. The aim of the agreement is to reduce the risks of human rights violations in international value chains. The agreement is an excellent example of how the banking sector is further developing a dialogue with its stakeholders. By complying with the agreement, NWB Bank is helping to enhance the banking sector's impact on the enforcement of human rights. For NWB Bank, application of the agreement can play a role in project financing.

Transparency benchmark

NWB Bank applies high standards when it comes to sustainable corporate social responsibility, and seeks to achieve the objectives set out in its CSR policy. NWB Bank recognises the importance of greater transparency and greater external accountability. This is why the bank continued to take part in the Transparency Benchmark in 2016. The Transparency Benchmark is an initiative by the Ministry of Economic Affairs and the Netherlands Institute of Chartered Accountants. It is a qualitative and quantitative investigation into CSR reporting in the annual reports of large companies and publicly held participating interests in the Netherlands. The Transparency Benchmark criteria were further tightened in 2016, however NWB Bank managed to retain its position as one of the frontrunners within this benchmark ranking in 35th place (2015: 31) out of a total of 483 participants. The bank retained ninth place in the financial sector, achieving its goal of remaining within the top 10 percent of participants this year. Moreover, NWB Bank uses the GRI framework as a basis for its CSR reporting. The bank's ambition is to continue to produce reports using GRI and to further optimise the monitoring of, and focus on, the associated performance indicators.

NWB Fonds

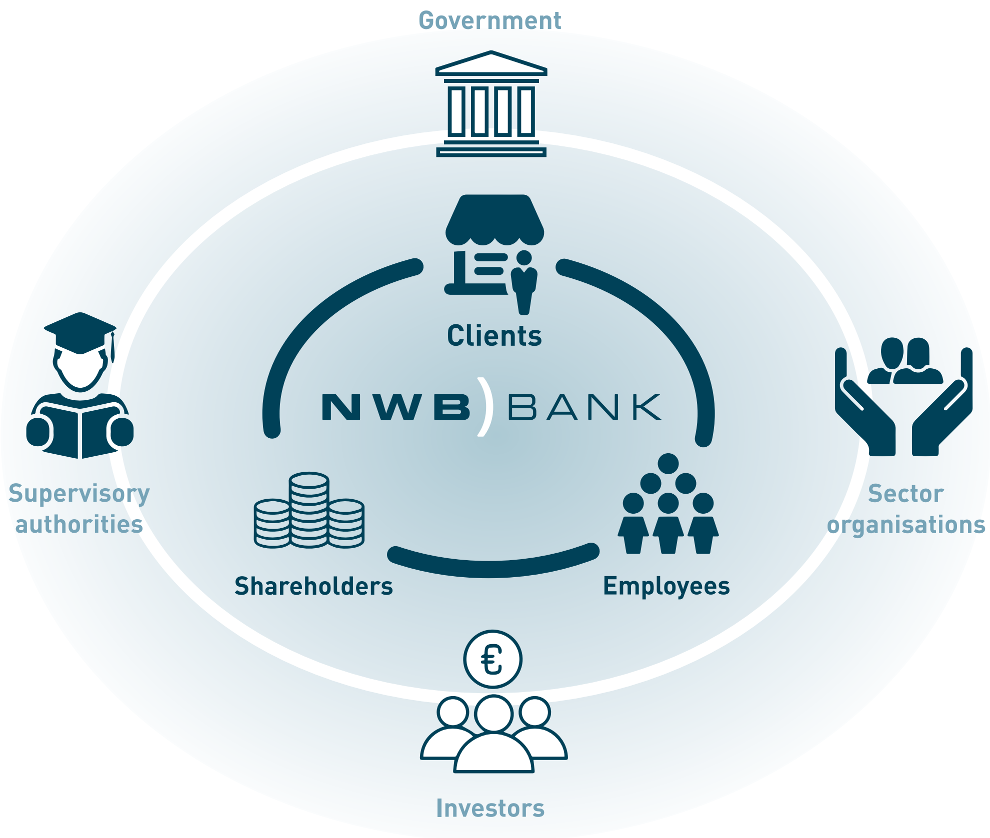
In November 2016, the press published articles with negative undertones on the international activities of the water authorities and the NWB Fonds. The bank does not agree with the criticisms. Water authorities are asked to share knowledge and expertise internationally due to the Netherlands' and the water authorities' excellent reputation for water management. They do so under the banner of the Dutch Water Authorities, to a limited extent and with limited resources and wherever the water authority boards recognise that collaboration has added value. This can include advising local and regional authorities on water management, financing and sustainable management and maintenance. It also includes supporting trade missions by central government and the Dutch business sector, with the aim of winning new business for trade and industry, or the deployment of expertise in disaster prevention or disaster response. The international efforts of water authorities are very limited compared to the efforts dedicated to their core tasks, and largely involve the use of manpower. A financial contribution is available for the water authorities' international activities from the interest on the NWB Fonds capital. The fund consists of a total sum of €20.5 million, donated by NWB Bank over the years since 2006. The annual interest revenue is around €0.8 million. The NWB Fonds has PBO status and meets the associated transparency requirements. According to the NWB Fonds treasury regulations, as with any donor-advised fund, the capital must be maintained. This means that the money is not intended to be invested in projects, but that only the income deriving from interest may be used. To avoid a situation in which persistently low interest means that the fund's objective can no longer be achieved, an 'Additional Tier 1' loan issued by NWB Bank has been chosen in the articles and the treasury regulations.

Energy Transition Financing Facility

In the second half of 2016, the government launched a pilot for the energy transition financing facility (ETFF). This facility is designed to achieve the energy transition goals set out in the National Energy Agreement by providing risk-bearing capital. The ETFF is solely intended for Dutch national promotional banks, in other words NWB Bank and BNG Bank. A maximum government guarantee of 80% applies to ETFF loans.

Stakeholder dialogue

NWB Bank maintains a regular dialogue with its stakeholders. The bank considers its major stakeholders to be all individuals and organisations that it works with, or that attach importance to the social role it fulfils as a promotional bank. These stakeholders include the bank's shareholders, clients, investors, staff, supervisory authorities and the government.



Shareholders
A general meeting of shareholders is held once a year. At this meeting, the Managing Board reports on topics such as objectives, company strategy, policy and financial results. Periodic consultations are also held with the shareholders, with items on the agenda including current developments within the bank and social developments that could affect the bank or its shareholders. Topics such as governance and the energy transition, and developments in this area, are regularly discussed with the shareholders.

Clients
The bank's clients (the Dutch public sector) each have a high degree of social responsibility. Their performance in this regard is monitored by public opinion, the democratic process and the applicable laws and regulations. To encourage further awareness, NWB Bank addresses sustainability during its discussions with customers and offers a platform for innovative projects through initiatives such as the Water Innovation Prize. Clients' sustainability policies are regularly discussed during visits and client events. NWB Bank organises client events at which it provides a broader and deeper insight into developments in financial markets, products and the conduct of parties that may be relevant to clients. An agenda is drawn up for client events based on client input. The high turnout is confirmation that client events address a need. NWB Bank also holds presentations on specific topics by invitation, at client network meetings, regional consultations, symposia and thematic meetings.

Investors
During the year, the Managing Board and treasury staff visit investors to explain the annual and semi-annual figures and other developments. NWB Bank largely finances itself on the international money and capital market via the issue of negotiable debt securities. As a result, the bank does not know some of its investors by name. Investors are provided with information via international roadshows, the annual report, and the bank's website. If the investor is known, the bank carries out a Customer Due Diligence (CDD) analysis in advance for new parties and only accepts money from parties who have passed the CDD analysis. NWB Bank actively seeks dialogue with SRI (socially responsible investing) investors who invest in the bank's Water Bonds, in order to identify points for improvement for its CSR policy. Investors deploy research agencies specialising in sustainability to assess NWB Bank's CSR policy and transparency, partly based on questionnaires. NWB Bank facilitates these research agencies in their assessment, for instance by including additional information in the GRI table and entering into a dialogue with them.

Staff
The bank's success depends on professional and committed staff. It is therefore essential that they continue to develop their knowledge and skills. The bank provides a healthy training budget for this purpose. In addition to individual training sessions, in-company training sessions are also held on a regular basis and focus on aspects such as compliance and information security. NWB Bank aims for an open dialogue between the organisation's staff members. In practice, this means that staff exchange as much information and knowledge as possible. The bank introduced knowledge sharing sessions in 2016 as one way of encouraging this exchange. Other efforts to promote staff involvement include consultations with the bank's Works Council. Over the past year, the Managing Board has held several consultations on topics such as the general state of affairs within the organisation.

Supervisory authorities and sector organisations

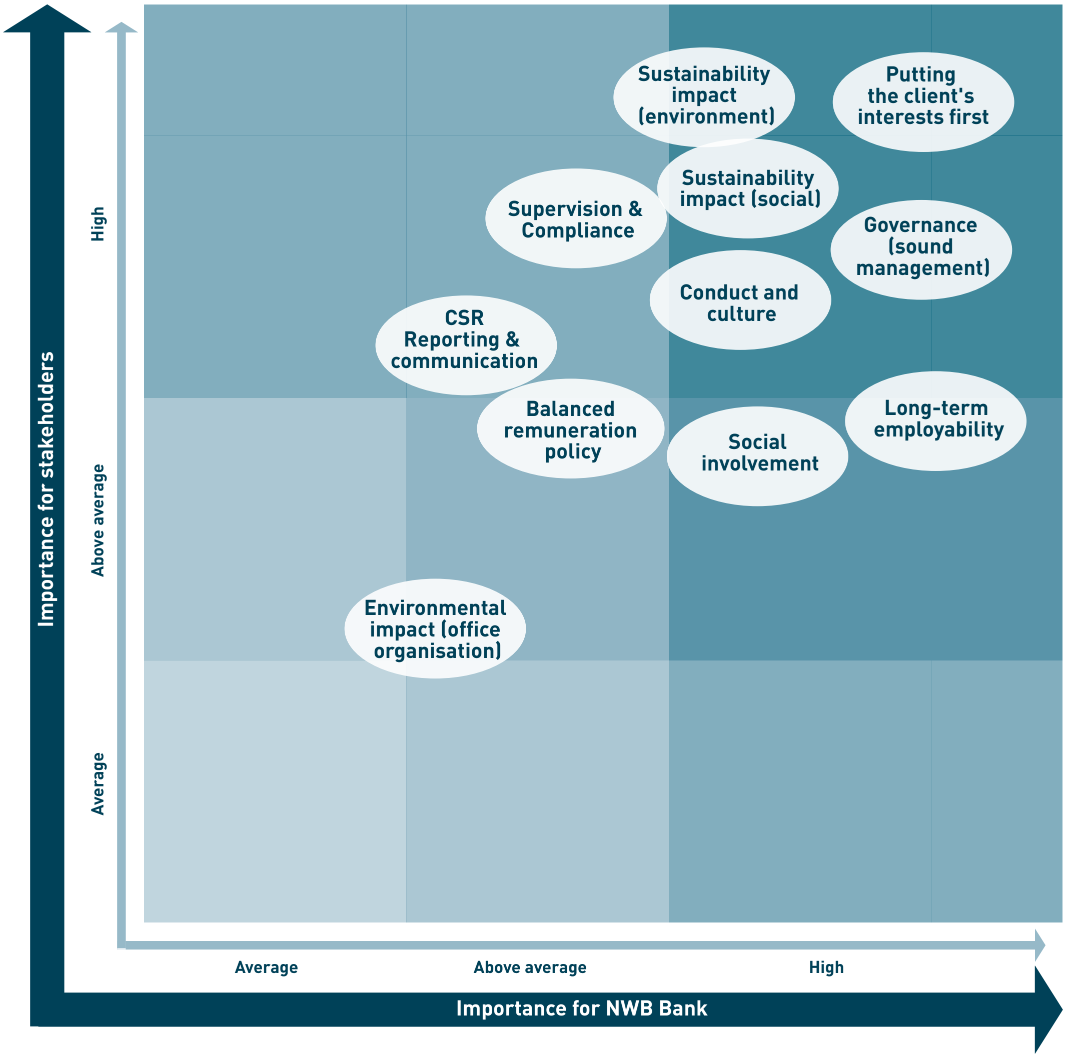
Several times a year, NWB Bank consults with the statutory supervisory authorities, the Dutch Central Bank (DNB), the European Central Bank (ECB) and the Netherlands Authority for the Financial Markets (AFM), which monitor compliance with the laws and regulations. For example, DNB will be conducting further research in 2017 into the options to investigate and, if necessary, stress test the risks presented to the financial sector by climate change. Its aim is to gain a better insight into what impact climate risks can have on the financial position of financial institutions and to examine how this could affect its supervision of the financial sector.

Government

As a bank of and for the government, NWB Bank is active within the playing field established by central government for local authorities and institutions guaranteed by these authorities. NWB Bank regularly consults with the relevant ministries and provides expertise in policy debate where possible. As part of this, NWB Bank is an active participant in the local and regional authorities funding (fido) working group. NWB Bank also helps to achieve the goals set out in the Energy Agreement by providing financing to the public sector to this end at the lowest possible cost.

Materiality analysis

As in previous years, a materiality analysis was carried out in 2016 on the CSR topics that are important to the bank. The topics were identified based on discussions with stakeholders and, where possible, stakeholders' policy with regard to general social and sector-specific topics. This resulted in the 'Material Topics Plot' (MTP) shown here, which was extensively discussed within the CSR Committee. The topics 'putting the client's interests first', sustainability impact, governance and supervision/compliance in particular are highly relevant for both the stakeholders and NWB Bank. This is evident from, amongst other things, the policy pursued by supervisory authorities, discussions with shareholders, the focus on credit ratings in the financial markets and the policy of NWB Bank itself. Explanatory notes on the graph can be found in the *GRI table* on the website.



The Material Topics Plot is drawn up from the perspective of the stakeholders, with whom discussions have taken place. Online research was also carried out, and benchmarking was used to form a comparison with similar banks to identify the topics that are important to stakeholders. Based on the impact for various stakeholders and their feedback, an estimate was made of the importance that each of the topics represents for them. After all, not all stakeholders have the same interests. The importance of NWB Bank was determined within the CSR Committee, on which the Managing Board is also represented. A number of topics were judged 'less relevant' in the discussion. These topics were not included in the plot. The main topics of relevance identified by the CSR Committee were 'putting the client's interests first' and sustainability impact. Governance, supervision and compliance are topics that the Managing Board considered particularly relevant. With a small office organisation, NWB Bank has low CO_2 emissions and a limited environmental impact, of which the stakeholders are aware.

Business model

NWB Bank provides financing for local and regional authorities (water authorities, municipalities and provinces), institutions guaranteed by government bodies and other public sector institutions. The bank's clientele consists largely of public organisations, such as institutions for social housing, healthcare and activities in the field of water and the environment. Like the bank's clients, its shareholders are from the Dutch public sector.

NWB Bank finances its activities on the international money and capital markets on the basis of a very strong capital position and strong ratings. Its solid status and financial expertise enable NWB Bank to raise ample funds on favourable terms in the international financial markets. On top of this, the bank has a very low cost structure and highly qualified and committed professionals.

NWB Bank puts its client's interests first. The bank plays an important role in the financial services sector that it can only fulfil to the best of its ability if society, and its clients in particular, have confidence in it. Accordingly, consciousness, engagement and reliability are the bank's core values.

NWB Bank has a particular impact through its lending activities and corresponding information and knowledge transfer. The full business model is shown in the value chain, see page 66. The capital mentioned supports the business model and provides value for the stakeholders. The value creation model has been compiled on the basis of input from the stakeholders listed. The CSR Committee members merged this information to produce the value creation model.

Management approach

CSR is an integral part of NWB Bank's strategy. This is reflected in the bank's core tasks at strategic, tactical and operational level. Please refer to the Report of the Managing Board for details of NWB Bank's strategy. The bank's strategy, and the resulting annual plans and policy amendments, are discussed at Managing Board meetings and subsequently within the management team. Implementation of the annual plans is monitored internally by the Managing Board based on periodic reports, which are also placed on the management team and departmental meeting agendas. Plans and policy changes directly related to CSR are also discussed by the CSR Committee. The CSR objectives are included in the objectives of the various departments and staff members involved.

NWB Bank has tailored its CSR management approach and its choice of GRI sustainability performance indicators to its relatively small office organisation and to its role as a financial service provider in the public sector. This approach is currently, and is expected to be in the future, most consistent with NWB Bank's compact organisation.

The CSR Committee consists of staff members from various departments, a Managing Director and the CSR coordinator. The CSR Committee reports to the Managing Board, which is responsible for policy-making, management approach and the evaluation of the material social aspects of business. The CSR Committee selects topics that are relevant for the bank from the stakeholders' perspective. The CSR Committee discusses these topics and submits its selection to the Managing Board for approval.

Corporate social responsibility is also actively addressed in meetings of the audit and risk committee, and the Supervisory Board oversees CSR policy and performance. The CSR Committee members each have joint operational responsibility for their specific area of the themes, goals and associated reporting. The Managing Board is ultimately responsible for CSR. CSR policy is established within the CSR Committee, including the Managing Board. Policy was adapted in 2016 in accordance with the signing of the UN Global Compact. Reports on CSR agreements signed are mainly provided in the GRI table. This table is an integral part of NWB Bank's CSR reporting and transparency.

The organisation draws up the themes from the CSR policy, taking into account the interests of the various stakeholders. The themes are linked to measurable objectives, which are discussed and monitored by the CSR Committee at least every six months. NWB Bank reports annually on its CSR policy and its performance in relation to the CSR objectives, in its annual report and in the GRI table. The reports are based on the materiality of the chosen topics. The CSR Committee members are also responsible for monitoring and achieving the relevant objectives of their department and for allocating the time and resources needed for specific action in this context. The management team and Managing Board meetings have addressed topics such as training, behaviour and culture and work placements based on the monitoring activities.

Value chain

INPUT >

Financial capital

- Triple A ratings Moody's and S&P
- Well-capitalised
- Diversified funding base
- Sixth safest bank in the world (source: Global Finance)
- In the lead group of Green Bond issuers in the Netherlands
- Lead group in the Eurozone with CET1 capital
- Low Cost/Income ratio
- Frequent issuer

Social and relationship capital

- Complete public sector as customer
- Guarantee sector (Social Housing Guarantee Fund/Homeownership Guarantee Fund/ Guarantee Fund for the Healthcare Sector)
- Of and for the government
- Investors
- National promotional bank (collaboration with the EIB)

Human capital

- Well-trained and committed professionals
- Key members of staff are registered with the DSI [Dutch Securities Institute]
- Higher than average Work Ability Index

Intellectual capital

- Specialist knowledge
- Promotion of innovation, including product innovation

Organisational capital

- Sustainable procurement and investment
- Strong sustainability ratings (Sustainalytics, Oekom and IMUG)

VALUE DRIVERS >

Vision

Combining our objectives as a promotional bank with a proactive approach in order to create added social value in social, environmental and economic terms.

Mission

As a customer-focused, robust and sustainable financial partner, we enter into lasting relationships with our stakeholders and enable them to fulfil their duties in Dutch society in the best possible manner.

Shareholders
Customers
Investors
Employees
Supervisory authorities
Government

Themes

Sharing financial expertise, providing finance in a sustainable and committed way, operating in a sustainable and socially relevant way, and acting with integrity and transparency.

Core values

Consciousness, engagement and reliability.

Strategy

By catering efficiently to the combined financial needs of customers in the public arena we seek to lower the public sector's financial charges. We seek to respond to the changes in the needs of the public sector and to be available for our clients at all times.

OUTPUT >

Knowledge transfer

- Client seminars
- Treasury scans
- Insight into market developments
- Meetings with customers
- Innovative solutions

Lending

- Money market loans
- Long-term lending
- Bespoke finance
- 1 day to 50 years

TO


Housing corporations


Water authorities

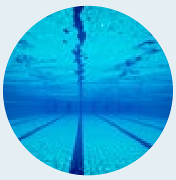

Export credit guarantees


Joint schemes


Municipal authorities


Energy utilities


Educational institutes


Public Purpose Organisation


PPP


Project finance


Provinces


Water utilities


Health care

IMPACT >

- CLIMATE MITIGATION AND ADAPTATION
- CO2 REDUCTION
- CIRCULAR ECONOMY
- AFFORDABLE SOCIAL HOUSING
- CREATING A SUSTAINABLE HOUSING STOCK
- PROMOTING EXPORTS
- REDUCING THE HEALTH CARE COSTS
- LOW COSTS FOR THE GOVERNMENT AND THE CITIZEN

***Photography:** Provinces, A27 / A1, Heijmans. PPP, Amsterdam District Court, KAAN Architecten. Project finance, Defluent, Delfluent Services B.V.*

Sustainable Development Goals

On 25 September 2015, 195 Member States, including the Netherlands, adopted the Sustainable Development Goals (SDG). The SDG, which are part of the United Nation's 2030 Agenda for Sustainable Development, consist of 17 objectives that member states must incorporate into their national policy. The 2030 Agenda for Sustainable Development elaborates further on the Millennium Development Goals formulated before the end of 2015.

The 17 SDG include 169 sub-objectives that must be achieved by 2030. NWB Bank's core activities, CSR policy and CSR objectives have an impact on a number of the SDG. The seven objectives in question are listed below, accompanied by an example of how NWB Bank and NWB Fonds believe they can make a useful contribution towards achieving each objective over the next few years:

NWB BANK

NWB Bank supports the Sustainable Development Goals.

SDG 5: Achieve gender equality and empower all women and girls
In the event of equal suitability, candidates who contribute towards the diversity of the workforce will be given preference when filling vacancies. The bank also aims for at least 30% female representation in its Supervisory Board and Managing Board.

SDG 6: Ensure availability and sustainable management of water and sanitation for all
The NWB Fonds supports water projects in developing countries.

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all
Financing the climate adaptation and mitigation activities of organisations such as water authorities and social housing and the joint ambition to establish a circular economy.

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
NWB Bank provides financing for initiatives such as infrastructure PPP projects through application of the Equator Principles.

SDG 11: Make cities and human settlements inclusive, sage, resilient and sustainable
NWB Bank's largest customer group is social housing, which provides affordable rented accommodation in the Netherlands. The bank aims to issue its first social bond in 2017, namely an 'Affordable Housing Bond', the proceeds of which will be used to finance social housing.

SDG 13: Take urgent action to combat climate change and its impacts
NWB Bank's clients have ambitious goals to combat climate change. By providing them with affordable financing, e.g. via the issue of Water Bonds, the bank helps to realise these objectives and to keep the associated costs as low as possible.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
NWB Bank finances biodiversity projects by water authorities. The NWB Fonds enables the water authorities to use their extensive knowledge of this subject in developing countries.

Themes and objectives of NWB Bank

In its CSR policy, NWB Bank has linked its objectives for 2016, 2017 and the longer term to four themes. The objectives are subdivided into CSR performance objectives (PO) and minimum preconditions (MP) for the long term (three to five years). The performance objectives are measurable and capable of being influenced. This is where the bank's challenge lies. The minimum preconditions are based on factors such as laws and regulations, governance codes, and internal codes of conduct and regulations.

The water authorities have set themselves tough sustainability and energy goals, with the aim of contributing towards a sustainable economy and society. The water authorities' ambitions are set out in the Climate Agreement (2010) and the Energy Agreement (2013). NWB Bank also contributes towards this long-term goal by lending to the water authorities. The objectives in the agreement should be largely achieved by 2020.

Based on NWB Bank's potential impact, its first priority is theme 2 'Sustainable and engaged financing', where the bank can make the largest social contribution through affordable financing.

The relationship between the topics in the Material Topics Plot and the themes is shown in the following table:

Stakeholder	Material topic	Themes and CSR policy
Clients	Putting the client's interests first	Sharing financial expertise with the public sector
	Social involvement	Sustainable and engaged financing
Shareholders	Balanced remuneration policy	Ethical and transparent activities
	Social involvement	Sustainable and engaged financing
	Governance (sound management)	Ethical and transparent activities
Investors	Sustainability impact (Environment and Social)	Sustainable and engaged financing
	CSR Reporting/Communication	Ethical and transparent activities
	Governance (sound management)	Ethical and transparent activities
Employees	Long-term employability	Ethical and transparent activities
	Conduct and culture	Ethical and transparent activities
	Social involvement	Sustainable and engaged financing
Supervisory authorities	Conduct and culture	Ethical and transparent activities
	Supervision and Compliance	Ethical and transparent activities
Government	Environmental impact (office organisation)	Sustainable and social operations

Theme 1: Sharing financial expertise with the public sector

1.1 Keeping financial knowledge up to date and staff development – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
all	all	all	all	Annual training of Front Office staff.

1.2 Reducing the knowledge gap between the financial markets and the public sector - (PD).

Implementation	Goal			Description
2016	2016	2017	Long term	
2	3	2	2	Number of client events for specific target groups.
weekly	weekly	weekly	weekly	Sending out the 'Financial Markets Overview'
yes	yes	yes	yes	Performance of treasury scans (upon request).
yes	yes	yes	yes	Pro-actively approach clients in the event of new financing options.

As a promotional bank, NWB Bank shares its experience and knowledge of financial developments and products with the Dutch public sector.

1.1 Keeping staff up to date with financial knowledge and developments

All public finance and treasury department staff take part in at least one training session or conference a year. The staff also follow financial developments via the various media, including trade press and research reports. This enables them to anticipate and meet the challenge of the many developments that are relevant to the bank and its clients. NWB Bank thus responds to its clients' need for professional financial support.

1.2 Reducing the knowledge gap between the financial markets and the public sector

NWB Bank is in contact with its clients and other stakeholders via a number of channels.
For instance, the bank provides its contacts with a weekly insight into (historical) market movements, the driving forces behind market interest rates and funding rates via the 'Financial Markets Overview'. This allows clients to monitor the capital market and assess the risks. Clients can respond immediately to changing market conditions if they wish.

Moreover, NWB Bank organises annual client events for each client segment. During these events, information is provided on the workings of the financial markets, current developments and specific financing and other topics. The events are educational and are designed to help improve clients' financial knowledge and processes. The planned number of client events for 2016 was three, one for each of the bank's largest client groups. Due to overlapping topics and themes, the decision was taken to combine the client event for housing corporations with that for municipalities. This meant that all three client groups were reached, but two client events were sufficient. The objective for 2017 was adjusted accordingly.

On top of this, the bank held presentations in 2016 for various governing boards of water authorities and for the supervisory board of a housing corporation. Through these events, NWB Bank is bridging the knowledge gap between the public sector and the financial world, in line with the bank's duty of care and its policy of putting the client's interests first when providing its services.

NWB Bank's account managers attend seminars and regularly visit clients and other stakeholders to discuss developments and to address specific needs. For instance, potential and existing clients can discuss their issues and financing needs with NWB Bank, review their loan portfolio via a treasury scan or obtain information on new financing instruments in the market. CSR is a regular item on the agenda at client visits. NWB Bank seeks to further raise awareness of this subject among its clients.

Finally, NWB Bank continued in 2016 to inform its clients about media reports concerning the public sector via its daily newsletter *'De NWB Bank Publieke Sector Actueel'* ('NWB Bank Public Sector Update'). The newsletter informs clients and other stakeholders about developments in the housing corporation, local and regional authority and education markets.

Theme 2: Sustainable and engaged financing

2.1 Selecting offered products and services based on their suitability for the client and tailoring them to the client's needs, in accordance with the nature of the sector and the vision of the relevant supervisory authority – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
yes	yes	yes	yes	Tailor offered products and services (internally/externally).

2.2 Putting the client's interests first in lending activities - (MR).

Implementation	Goal			Description
2016	2016	2017	Long term	
yes	yes	yes	yes	In principle, always help clients to make early repayments.
none	none	none	none	Number of complaints via complaints procedure.
yes	yes	yes	yes	Issue rates for loans of less than €1 million.

2.3 Sustainable and responsible financing and investment, taking into account the CSR exclusion criteria – (PO).

Implementation	Goal			Description
2016	2016	2017	Long term	
yes	yes	yes	yes	Compliance with/review of exclusion criteria.

2.4 Further encouraging socially responsible projects among the bank's clients. The goal is to link €500 million in lending to green bonds every year until 2020 – (PO).

Implementation	Goal			Description
2016	2016	2017	Long term	
€1.1 billion	€0.5 billion	€500 billion	€500 billion	Volume of finance linked to green bonds (2020).
yes	yes	yes	yes	Annual award of the water innovation prize.

As a promotional bank, NWB Bank imposes internal requirements on financing and investments in order to safeguard the bank's excellent reputation and relationship with its stakeholders in the long term.

2.1 Suitable products

NWB Bank selects products and services based on their suitability for the client and tailors them to the client's needs, in accordance with the nature of the sector and the vision of the relevant supervisory authority. Financial products must first go through an internal product approval process before they are offered by the bank. The approval process looks at aspects such as a product's suitability for a specific client group.

The internal product approval process is part of the Dutch Banking Code (see: Corporate Governance) and is explained in greater detail as a category in the GRI table. The process plays a central role in product responsibility and involves all relevant NWB Bank departments.

Putting the client's interests first in lending activities

As a bank of and for Dutch public authorities, it is important to function as a point of contact for regular clients in the public sector. For this reason, NWB Bank always directly provides all its regular clients with offer prices for cash and capital market loans. The principal amount can be paid on the same day if desired. NWB Bank also welcomes loans with principal sums of less than €1 million, in order to assist clients with relatively smaller financing needs. Furthermore, the bank has agreed a €250 million loan facility with the EIB, of which a large proportion will be reserved for products focusing on climate management. The EIB loan also enables NWB Bank to offer smaller projects and customers, who would otherwise be ineligible, the opportunity to benefit from inexpensive EIB financing.

‘AS A SMALL BORROWER, IT CAN BE CHALLENGING TO SECURE FINANCING. AS WELL AS APPLYING TO NATIONAL FUNDS, NWB BANK WAS ABLE TO PROVIDE US WITH LONG-TERM FINANCING QUICKLY AND AT VERY COMPETITIVE RATES.’

Bram Zandstra, treasurer to the Roothaan scout group

What is more, NWB Bank gives all its clients the attention they need, regardless of size or volume of lending. The bank always grants client visit requests and all clients are offered customised solutions.

‘NWB BANK DOESN'T JUST PROVIDE COMPETITIVE FINANCING – WE CAN ALSO CONTACT THE BANK WITH A WIDE RANGE OF QUESTIONS ABOUT FINANCIAL DEVELOPMENTS AND PRODUCTS. THE BANK'S KNOWLEDGE OF DEVELOPMENTS IN THE WATER SECTOR MAKE IT A PROFESSIONAL CONSULTATION PARTNER FOR US.’

Mary van Wijk, Strategic Finance Policy Adviser, Brabant Delta Water Authority

In 2016, the bank once again helped clients to make early repayments while optimising their loans portfolios. Maturity extension were also granted in this context, whereby existing loans were replaced with longer term loans at the current low interest rate.

2.3 Sustainable and responsible financing and investment

In 2016, NWB Bank was able to once again take part in tailored financing solutions for sustainable projects, such as wind turbines and a water treatment plant, as well as social projects, such as the financing of Museum Boijmans van Beuningen in Rotterdam. There were no disposals or acquisitions in 2016.

Impact on sustainability of social housing:

NWB Bank's mission as a promotional bank is to provide financing to its customers on the most favourable terms possible and to take full advantage of its innovative capability in order to enable the public sector to keep the cost of fulfilling its duties in Dutch society and the cost of public facilities in the Netherlands as low as possible. Research by the Centrum voor Onderzoek van de Economie van de Lagere Overheden (COELO, Local Government Economics Research Centre) is a good indicator for this. This research shows that the social housing guarantee system, whereby the government provides surety (via the Guarantee Fund for Social Housing (WSW)) for loans to housing corporations, provides a significant interest rate advantage. The public-sector banks Bank Nederlandse Gemeenten (BNG Bank) and NWB Bank are by far the largest providers of guaranteed financing and therefore contribute towards this interest rate advantage, which benefits social housing. Researchers Veenstra and Van Ommeren estimate that this interest rate advantage equates to €700 million per year on the housing corporation sector's total guaranteed loan portfolio of around €80 billion. NWB Bank has provided around 39% of the total guaranteed debt.

Within the bank's CSR policy, NWB Bank's lending and liquidity portfolio is overseen by the CSR exclusion criteria. As a bank of and for the Dutch government, NWB Bank only provides credit to the public market in the Netherlands. The bank's lending rules are defined in the objects clause of the articles of association (article 2.1). The exclusion criteria form an integral part of the bank's CSR policy, which can be found on the NWB Bank website. This means that all parties that do not fall within the framework set out in the articles of association are excluded from NWB Bank's lending operations. The technical advisor applies the Equator Principles to social and environmental risks when assessing Dutch infrastructure PPP projects. The environmental risks are assessed for Dutch accommodation PPP projects. All PPP projects financed by NWB Bank fall within product category B or C. NWB Bank planned to become a member of the group of financial institutions that adhere to the Equator Principles in 2016, but has not yet completed this research.

Impact on environmental sustainability:

The water authorities are working towards an energy-neutral future. One of the ways to achieve this is through the use of solar energy at sewage water treatment plants. The water authority Amstel, Gooi en Vecht is bringing 384 solar panels into use at the sewage water treatment plant in Huizen on 7 September. The panels have been installed in a special location, namely op top of the treatment process on one of the large aeration tanks, and supply energy for the aeration process. NWB Bank has provided the financing for the project.

2.4 Encouraging socially responsible projects among clients

NWB Bank seeks to encourage its clients to take on social projects wherever possible, not just through financing but also in other ways. Good examples include the Water Innovation Prize and the issue of Water Bonds. Details of both can be found elsewhere in this report.

Theme 3: Sustainable and social operations

3.1 Sustainable purchasing promotes sustainable economic growth and innovation and helps to achieve environmental and social goals. The goal is to ensure that all purchasing of products and services complies with the PIANOo purchasing criteria by 2017 – (PO).

Implementation	Goal			Description
2016	2016	2017	Long term	
partly	partly	partly	100%	Apply PIANOo purchasing criteria.

3.2 Promoting a healthy working environment and healthy development – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
1.8	≤ 2	≤ 2	≤ 2	% regular sickness absence among employees.
3,666	3,250	3,250	3,250	Training costs per employee in euros.
all	all	all	all	Number of employees with performance and career development.
100	100	100	100	% employees with pension cover under the pension plan.

3.3 More responsible use of resources and transport, with respect for the environment – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
25	<27	<27	<25	Estimated number of kg of paper consumed p.p.
32%	>30%	>30%	>30%	Bicycle scheme.
4.1				CO_2 emissions within business operations p.p.
235	<230	<230		CO_2 emissions within business operations.

3.4 Providing work placements to senior secondary vocational education, higher professional education and university education students. The goal is to offer two work placements per year as of 2020 – (PO).

Implementation	Goal			Description
2016	2016	2017	Long term	
1	≥ 1	≥ 1	≥ 2	Work placements.

3.5 Increasing the social involvement of the organisation and its staff – (PO).

Implementation	Goal			Description
2016	2016	2017	Long term	
85%	≥ 60%	≥ 60%	≥ 60%	Active staff involvement in CSR projects.
3	≥ 2	≥ 2	≥ 2	Participation in a number of social projects.

As a promotional bank, NWB Bank feels it is important to serve as an example when it comes to organisation and the environment.

3.1 Sustainable purchasing

The bank has set itself the goal of applying the public authority purchasing criteria (PIANOo) to all purchases of facility products and services. The aim is to ensure that these purchasing criteria are met when renegotiating all existing contracts and concluding new contracts. Sustainability aspects are taken into account when purchasing consumer items, and the PIANOo purchasing criteria serve as a guiding principle. All public authorities are committed to 100% sustainable purchasing. NWB Bank aims to meet this goal as of 2017.

Through sustainable purchasing, the bank hopes to help to improve social conditions within the production chain (including human rights). The social requirements within the purchasing criteria focus on improving working conditions within the chain. By applying the criteria in tender documents, NWB Bank encourages compliance with internationally accepted labour standards and human rights.

In 2016, NWB Bank entered into an agreement with a producer/supplier of sanitary products manufactured using sustainable methods. The producer manufactures all its products in the Netherlands and guarantees its raw material for the purchase of the amount of used paper that NWB bank sends to the waste processing company.

In 2016, NWB Bank commissioned research into further sustainability improvements to the air conditioning systems in its office building. The proposals made in the report were incorporated into the Netherlands Enterprise Agency's compulsory energy audit. The results of the energy audit were passed on to the Haaglanden Environment Agency as the competent authority and will be included in the GRI table.

NWB Bank monitors its clients and seeks, through its purchasing activities, to influence suppliers' behaviour with regard to issues such as working conditions, employee rights and the environment. Discussions with suppliers address topics such as the application of purchasing criteria and sustainability improvements. Suppliers who are found to not or no longer meet the required level of corporate social responsibility are assessed and discussed on a case-by-case basis by the CSR Committee to determine whether there are sufficient grounds to change supplier.

3.2 Promoting a healthy working environment and healthy development

Long-term employability

Long-term employability is a key objective of the bank's HRM policy. NWB Bank aims to attract, retain, further develop and promote competent personnel in a way that benefits both the organisation and the employee. Long-term employability and a pleasant working environment are encouraged and facilitated through the use of a wide range of different instruments.

Intensive and personal employee guidance on their current and future performance and personal development

Supervisors devote attention to employees' current and future performance and their personal development in a number of ways, including via the HRM cycle. Objective, progress and appraisal interviews are conducted with all employees and recorded. The strength of this cycle lies mainly in the dialogue between supervisor and employee regarding development.

A number of actions will be taken in 2017, including the introduction of strategic staff planning and establishing an introduction programme to place an even greater focus on staff development.

The bank attaches great importance to well-developed employees; for example, 67% of its staff have received higher professional or university education. The bank places a strong focus on broadening knowledge and skills through external and internal training. Staff also receive guidance from external professionals where necessary.

NWB Bank had a healthy training budget of €250,000 in 2016. With a workforce of 57 employees, this equates to €4,385 on average per employee. An average of €3,666 was spent on training for each employee in 2016. It is estimated that a total of 3,228 hours were devoted to training; an average of 56 hours per employee. The bank also places an emphasis on on-the-job learning and coaching. This is not included in these figures.

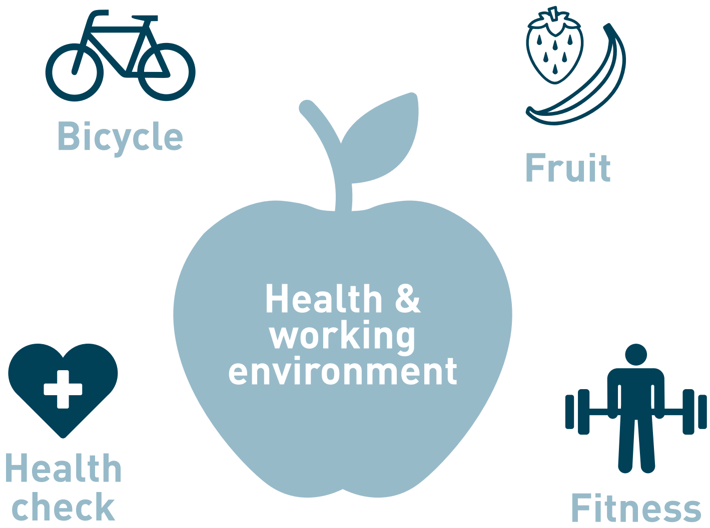
A number of in-company training sessions took place in 2016. Almost all staff members took part in the workshop 'NWB Bank as a more influential team'. Groups of employees also took part in training in English, cybercrime, derivatives and the Works Councils Act *(Wet op de ondernemingsraden, WOR)*.

Individual staff flexibility to achieve the right balance between work and private life

NWB Bank sets great store by its culture in which staff work together based on trust and professionalism and the lines of communication are short. Within this culture, staff must also have the flexibility to achieve a balance between work and private life that is right for them. It is important to the bank to provide the scope for this flexibility.

Health and working environment

A focus on physical health is in keeping with NWB Bank's culture and policy of prioritising its staff.



This year, employees were given the opportunity to attend a health check. Seventy-four percent took part. The bank also offers a bicycle scheme that encourages employees to commute by bicycle. This scheme is currently used by 32% of staff. On top of this, the bank offers an indoor gym and provides fruit every week.

The impact of the above interventions is shown by the regular employee engagement survey, which was conducted in 2016. The response rate was 74%. High scores were achieved for work ability, the Work Ability Index (WAI) (43.9 on an average scale of 35-45), work satisfaction (98%) and satisfaction with immediate supervisors (83%). At the same time, it is recognised that staff have little interest in employability opportunities outside their department (56%) or the organisation (45%).

NWB Bank also has a low sickness absence rate (1.8%). There was one case of long-term absence in 2016 (43 or more days). No physical accidents occurred in the workplace.

Total sickness absence
2015 - 1.28% **2016** - 1.81%

Short-term absence of up to 7 days
2015 - 1.10% **2016** - 1.10%

Medium-term absence of up to 42 days
2015 - 0.18% **2016** - 0.47%

Long-term absence of up to 365 days
2015 - 0% **2016** - 0.24%

Culture, behaviour and development

NWB Bank's strength lies in its pleasant and professional corporate culture, which recognises the importance of aspects such as cooperation and engagement, a culture in which the bank's core values (consciousness, engagement and reliability) and social objectives are firmly established. The behaviour of the workforce is just as important as a well-formulated mission. This is why corporate culture is the focus of ongoing attention for NWB Bank. In 2016, almost all employees took part in the workshop 'NWB Bank as a more influential team', which looked at the positive aspects of the organisational culture and the possible risks, including a potential lack of mutual criticism and an insufficiently outward-looking perspective. To reinforce the workshop, monthly knowledge sharing sessions were launched at the end of 2016, open to all staff members. Both internal and external speakers are invited to attend these sessions and there is considerable scope for discussion. The sessions will continue in 2017 and a further focus will be placed on this topic.

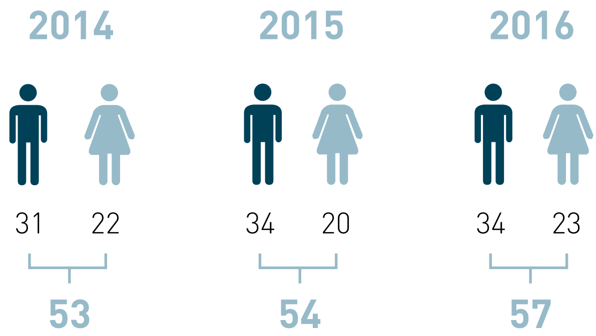
Diversity and equality

NWB Bank seeks to recruit professionals young and old who complement the current workforce. This involves paying attention to the different age groups within the organisation. One example is the implementation of the 'Young Professionals' in 2016. These millennials provide input and elaborate ideas from the perspective of this group of employees.

	2015	2015	2016	2016
	number of employees	%	number of employees	%
Employees aged 61 to 70 jaar	1	1.9	0	0
Employees aged 51 to 60 jaar	13	24.1	13	22.8
Employees aged 41 to 50 jaar	24	44.4	25	43.9
Employees aged 31 to 40 jaar	12	22.2	13	22.8
Employees aged 21 to 30 jaar	4	7.4	6	10.5

NWB Bank aims for a balanced mix of employees with talent, development potential and the ability to improvise. Employees whose background, knowledge and experience enable them to help to further develop the bank. Candidates that fit the profile are admitted to our selection process without any form of discrimination. This means that NWB Bank is open to employees regardless of gender, age, religious conviction, cultural background and sexual orientation. Candidates that contribute towards the diversity of our workforce are then given preference. Although the legal provision on the balanced distribution of males and females ceased to apply on 1 January 2016, the bank strives for at least 30% male and 30% female representation within the Supervisory Board and the Managing Board. This goal was achieved once again in 2016.

In addition, NWB Bank places a focus on Social Return. In this field, the bank continued in 2016 to work successfully with, and hire temporary staff from, organisations that help people with impairments find a job and provide assistance in the labour participation process.



Complaints procedure

Clients can lodge any complaints on the basis of NWB Bank's General Terms and Conditions and complaints procedure. The bank received no complaints in 2016.

The bank also has a whistle-blower scheme. This scheme enables employees to report any suspected general, operational or financial irregularities within NWB Bank, anonymously or otherwise and without endangering their legal position, to the Chair of the Managing Board, or the Chair of the Supervisory Board. No reports were received in 2016.

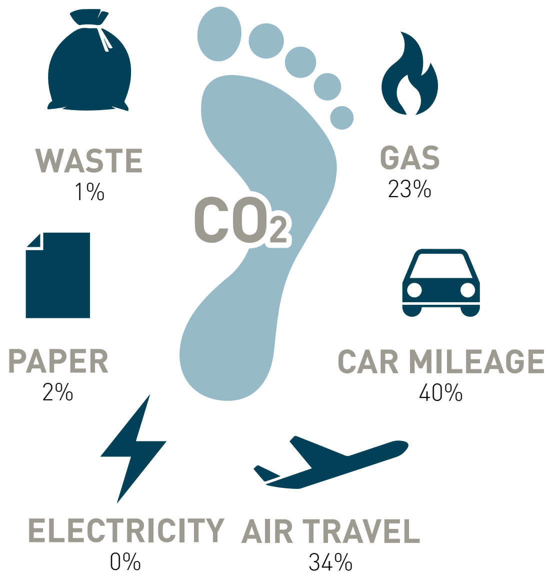
NWB Bank warmly invites its stakeholders to put forward suggestions for its CSR policy and/or to share any other reactions to this subject with the bank. NWB Bank has a special email address for this purpose: *mvo@nwbbank.com*.

3.3 More responsible use of resources and transport, with respect for the environment

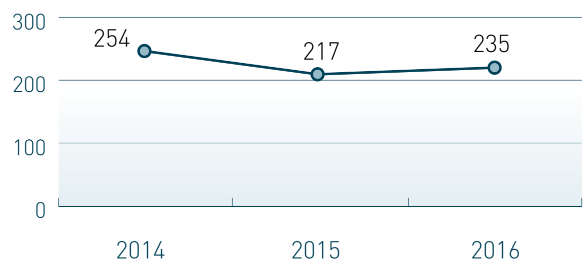
The *GRI table* provides insight into the company's results in terms of the environmental aspects of business with regard to emissions, specifically greenhouse gases and ozone-depleting gases. The CO_2 emissions target was not reached in 2016, due in part to organisational growth. To take this into account in the future, the CO_2 emissions target for 2017 is expressed as emissions per person.

In 2016, as in previous years, NWB Bank made full use of electricity generated from sustainable energy sources (green energy). The CO_2 emissions for air travel abroad were offset in 2016.

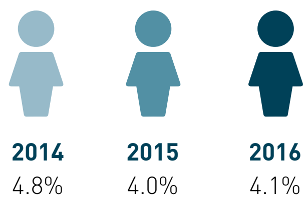
The vehicle fleet consists of 14 cars, including two hybrid cars, with a limited environmental impact. NWB Bank updated its company car scheme in 2016. The scheme was previously based on energy labels, but in 2016 this was changed to maximum CO_2 emissions per vehicle of 165 grams per kilometre. The bank plans to further reduce its CO_2 emissions in the coming years, and the standard will be reviewed each year to this end. The bank's travel policy facilitates and encourages the use of public transport, and its bicycle scheme provides employees with an additional incentive to commute by bicycle. In 2016, 32% of employees (2015: 33%) used this scheme. This year also saw the introduction of NS Business Cards to encourage staff to use public transport for business travel.



CO_2 EMISSIONS PER YEAR



CO_2 EMISSIONS PER EMPLOYEE



3.4 Provision of work placements to senior secondary vocational education, higher professional education and university education students

NWB Bank offers work placements to senior secondary vocational education, higher professional education and university education students. Shadow work placements are also facilitated for students in pre-university education upon request. In view of NWB Bank's relatively small workforce and the intensive supervision required, the aim is to organise at least one work placement per year. The bank met this goal in 2016.

3.5 Increasing the social involvement of the organisation and its staff

NWB Bank seeks to encourage its staff to take part in socially responsible projects.

NWB Fonds

The NWB Fonds embodies the type of long-term corporate social responsibility NWB Bank has opted to support. Established in 2006, the fund serves as a source of financing of and for water authorities in shaping their international partnerships. It offers them the financial means to contribute to solutions to global water issues, based on their core tasks and core values. Director Henk Loijenga and Programme Manager Paul Langeveld have provided a topical explanation of the Fund's activities. That explanation forms part of this report.

Money Week/Banks in the Classroom

In 2016, 14 enthusiastic NWB Bank employees acted as visiting lecturers and held a total of 17 guest lectures in the context of the *'Week van het geld'* (Money Week) *(www.weekvanhetgeld.nl)* as part of the financial education project *'Bank voor de klas'* (Banks in the classroom) *www.bankvoordeklas.nl*. This took place in collaboration with NVB *(www.nvb.nl)*, which is a partner of the *'Wijzer in geldzaken'* (Money Wise) platform. Wijzer in geldzaken aims to raise financial awareness in children of a young age, thereby establishing a basis for financial independence: what is learned in the cradle is carried to the tomb.

'JINC' project

In 2016, NWB Bank's HRM department took part in the Job Interview Training initiative jointly organised by JINC *(www.jinc.nl)* and Manpower. JINC believes that every young person deserves a fair chance on the labour market and so focuses on supporting young people with a socio-economic background. Together with other companies, NWB Bank has provided students with practical tips for job applications and has held practice job interviews with them in class to better prepare them for the labour market. In doing so, the bank also contributes to 'Social Return'.

‘CSR excursion’ project

In 2015, the bank started to organise excursions for bank employees designed to increase their involvement in the bank’s green activities. This involves identifying sustainable projects to boost staff knowledge and awareness of how our clients contribute towards a better society. On 22 September 2016, an excursion was organised to HVC Alkmaar *(www.hvcgroep.nl)*. HVC is responsible for the sustainable waste management of shareholder municipalities and water authorities. HVC also produces sustainable energy that it supplies to municipalities, water authorities, companies and private individuals.

‘Volunteer Work (NL Doet)’

In 2016, a group of 14 NWB Bank employees took part in the following three activities in the context of NL Doet *www.nldoet.nl*:

- the relocation of a woman in distress in the Hague region
- the organisation of a social gathering for residents of the Hofje van Boheemen in The Hague (special housing for people with long-term psychiatric problems)
- a clean-up of the De Herweijershoeve city garden (part of the Zuiderpark) in The Hague

Sponsorship

In addition to the Water Innovation Prize (contribution from NWB Bank in 2016: €25,000), the bank sponsors projects in the areas of financial education, water, art, cultural heritage and history.

2014	2015	2016
€ 43,666	€ 56,270	€ 48,994
16 applications	**23 applications**	**19 applications**
14 granted	17 granted	14 granted

The fall in sponsorship is due to a lower number of sponsorship requests. The five applications that were rejected had too little in common with the objectives of the sponsorship policy. Projects sponsored by NWB Bank in 2016 include the following:

- Financial education – the *'Bank voor de klas'* (Banks in the Classroom) project for the fifth time in a row www.bankvoordeklas.nl. In this project, bank directors and employees offer pupils in the top three years of primary school financial education in the context of *'De Week van het geld'* (Money Week) www.weekvanhetgeld.nl.
- Water – a documentary series on subsidence entitled 'Het nieuwe land' (The new country) by Viverra Films and Science View.
- Cultural heritage – the Water Kust Land (Water Coast Land) project, instigated by Stichting Een Dijk van een Kust in 2016.
- History – the book entitled *'Ooggetuigen van de Watersnoodramp 1953'* (Witnesses to the 1953 Flood Disaster), produced on the initiative of Dr Willem van der Ham. The bank provided a sponsorship contribution towards research, interviews, text and image research for the book.
- NWB Bank offers its employees the opportunity to put forward CSR activities to receive a contribution from the CSR employee sponsorship budget. Alongside a financial contribution, the bank also gives participating staff members the option of compensatory leave.

Lidwin van Velden, member of the Managing Board of NWB Bank, providing information to children in the classroom. Source: NVB

The Water Kust Land Project by Stichting Een Dijk van een Kust Photograph: Wil Spanjer of Stichting WaterKustLand

Theme 4: Ethical and transparent activities

4.1 Staff awareness of ethical conduct – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
n/a	n/a	all	1* every 2 years	Number of employees who have undergone corruption/integrity training.
all	all	all	all	Employee Code of Conduct.

4.2 The bank aims to rank amongst the best of its peers with regard to transparency, on the basis of the Transparency Benchmark. The goal is to belong to the top 10% of the Transparency Benchmark until 2020 – (PO).

Implementation	Goal			Description
2016	2016	2017	Long term	
yes	yes	yes	yes	Top 10% score for the Transparency Benchmark.

4.3 Striving to optimise transparency towards our clients and other stakeholders with regard to working procedures, risks and rates – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
no	yes	-	-	Rates can be obtained via the interest calculator on the website.
yes	yes	yes	yes	Specify product risks on the website.
3	≥ 2	≥ 2	4	Number of meetings between the Works Council and the Managing Board.

4.4 Screening of new employees – (MP).

Implementation	Goal			Description
2016	2016	2017	Long term	
all	all	all	all	New employees undergo PES.

For a promotional bank, reliability and transparency of activities are an absolute must. This also applies to internal communication with employees.

4.1 Staff awareness of ethical conduct

The bank's strategy places strict requirements on risk management and on the organisation and enforcement of adequate internal controls. NWB Bank has adopted an organisation-wide approach to risk management and its control. As part of risk management, the legal department has carried out an integrity risk analysis of NWB Bank consisting of the following steps: risk identification, risk analysis and risk control. Risks are monitored through the performance and review of the integrity risk analysis at set intervals (once a year).

NWB Bank aims for an open dialogue between the organisation's staff members. In practice, this means that staff exchange as much information and knowledge as possible. The management team's meeting cycle includes an interim evaluation of the departmental annual plans with the aim of optimising internal transparency. The annual review of the AP/IC descriptions (Accounting Procedures and Internal Control) is also an integral part of the in-control statements. In 2016, the bank started to set up an operational risk management framework.

The bank values the strong involvement of its staff, which takes a number of forms, such as consultations with the Works Council of the bank. Three meetings took place between the Works Council and the Chair of the Managing Board in 2016. The Supervisory Board was represented at two of these meetings.

Another aspect of social involvement is combating corruption and bribery. NWB Bank has a zero tolerance policy when it comes to bribery and corruption, regardless of the identity or job title of the giver or receiver of the bribery or corruption in question. The Managing Board expects all its employees to comply with the highest standards of ethical conduct and integrity at all times. This includes taking all possible steps to prevent, discourage and detect bribery and corruption. Engaging in behaviour or activities that contravene the bank's core values, or other relevant laws and regulations, is a breach of the Code of Conduct. NWB Bank does not offer inappropriate commission, or anything that could be interpreted as such, to anyone or for any purpose.

4.2 Transparency benchmark

NWB Bank managed to retain its position as one of the frontrunners within this benchmark, ranking in 35th place (2015: 31) out of a total of 483 participants, thereby achieving its goal of remaining within the top 10% of participants again this year. The bank retained ninth place in the financial sector.

4.3 Transparency of working methods, risks and rates

NWB Bank's working methods are explained to clients and stakeholders both in individual discussions and presentations, to provide insight into the background to the bank's activities and the associated costs. For more complex products, such as the conversion of derivatives or loan maturity extensions, the bank provides transparent information on the costs incurred and how these are calculated. The processes to be followed are disclosed in advance, so that all interested parties know what is expected of them. Where desired, the bank always cooperates in 'dry runs', in which processes are followed in advance to minimise the risk of uncertainties and unforeseen events.

Clients can ask NWB Bank to provide indicative rates via the Public Finance department. The weekly 'Financial Markets Overview' also contains rate indications, whereby a distinction is made between the swap rate and credit spreads. This allows clients to monitor the market and base investment decisions on the correct interest charges.

Loan rates could previously be obtained via the interest calculator on the NWB Bank website. The decision was reached in 2016 to remove the interest calculator from the website, as further analysis had shown that the calculator was no longer effective and, more importantly, direct client contact is preferred. This long-term objective therefore no longer applies.

4.4 Screening of new employees

NWB Bank received no internal reports of corruption and bribery in 2016. The bank has implemented a number of preventive measures, most importantly Pre-Employment Screening, the Insider Scheme and the Code of Conduct.

Dilemmas

A number of areas are listed below in which the bank has considered the various possibilities in relation to CSR issues.

Generic financing

Generic client financing presents a dilemma in terms of the structural application of the CSR exclusion criteria and encouraging responsible investment. NWB Bank provides loans to clients with the specific aim of financing a cash deficit or refinancing. This means there is not always a specific project for which the CSR aspects can be assessed.

New products

When responding to a specific client need, a situation can arise in which it must be assessed whether a new product can/should be introduced. NWB Bank's product approval process weighs up the risks of this new product for both the client and the bank itself. As a result, the client may not always receive the exact solution they want due to the risks associated with the product. This is a dilemma because, on the one hand, the bank always wants to help its clients, but, on the other hand, it wants to adhere to its carefully selected policy.

Small new client groups

Small client groups with relatively small financing needs are active within the public domain. The limited scale of the financing required makes it difficult for NWB Bank, with its relatively small office organisation, to provide these groups with efficient service. The amount of time involved in analysing the sector and the individual clients is often disproportionate to the size of the loan. Examples include relatively small loans to sports associations or senior secondary vocational education schools. If the costs incurred for the amount of time needed for a sound analyse were allocated to the credit spread, this would lead to significantly higher spreads. However, due to our social role, we decided against this and continue to serve these small client groups.

Rebound clause for municipalities

As a client group, municipalities have a payment agreement with their principal bank that can include a 'rebound' clause. A rebound means that the principal bank has the opportunity to submit a second, more attractive tender. As this is detrimental to a fair and transparent tender process, NWB Bank does not wish to submit a tender as part of this type of process. The rebound clause leads to three dilemmas. Firstly, the bank aims to be available to provide its clients with financing at all times. This is not the case if it does not submit a tender. In addition, clients need to have received at least two tenders. As other lenders also refrain from submitting a tender if they know a rebound clause applies, these clients often turn to NWB Bank. Finally, clients are not always aware of the negative effects of the rebound, a situation that is perpetuated if a tender is always submitted.

Unsecured financing

Within the social housing and healthcare sectors, NWB Bank's articles of associations stipulate that the bank can only provide housing corporations and healthcare institutions with financing guaranteed by the Guarantee Fund for Social Housing (WSW) and the Guarantee Fund for the Healthcare Sector (WFZ) respectively, or academic hospitals. This means that, without this guarantee, NWB Bank cannot issue loans to housing corporations or healthcare institutions. The dilemma here is that, in the current market, it is difficult for these clients to meet precisely this element of their financing needs.

However, the absence of this guarantee means that NWB Bank cannot meet its core responsibility (namely to provide financing to its clients at the highest possible quality and the lowest possible cost) under its current articles of association for this part of the financing. Only a change in the articles of association would allow the bank to provide unsecured financing.

CSR reporting standards

NWB Bank's disclosure policy focuses on the transparent reporting of its activities. Where this concerns CSR policy, the bank follows the GRI guidelines *(GRI: www.globalreporting.org)*. This report is based on the GRI 2016 G4 guidelines and relates to the entire NWB Bank organisation.

The choices in the report are primarily based on the Material Topics Plot resulting from the stakeholder dialogue. The opinions of a number of subject-matter experts are included in support of the choices made by NWB Bank. See for instance the article on the NWB Fonds, the interview with the winner of the sustainability prize as part of the Water Innovation Prize and the quotes from stakeholders. All activities (material topics) arising from the Material Topics Plot are included in the report. NWB Bank reports on a 'core' reporting level according to the GRI standards. The CSR chapter has been audited by EY on page 91.

NWB Bank's reason for choosing GRI is that it strives to offer excellent international comparability with other institutions, such as various other banks and publicly held participating interests in the Netherlands. NWB Bank also aspires to do this in the long term. The GRI launched the GRI Standards developed by the Global Sustainability Standards Board in 2016. NWB Bank will apply these new standards with effect from 1 January 2018. The GRI Standards will be more user friendly and place a greater emphasis on the management approach. A comprehensive overview of the relevant content criteria and performance indicators can be found in the GRI table on the bank's website.

NWB Bank subscribes to the UN Global Compact principles. By signing these principles, NWB Bank has declared that it takes into account key themes such as human rights, the environment and anti-corruption in its business processes. It also means that NWB Bank holds its interested parties, where possible and relevant, to account for the content of these principles. More information on how the principles are implemented can be found in the GRI table on the bank's website.

Together with 12 other banks, trade unions, NGOs and the government, NWB Bank has signed the ICSR agreement to help banks ensure that human rights are respected when making investments and issuing loans. The agreement also covers aspects such as working conditions, freedom to belong to a trade union, child labour and land rights, and applies to financing arrangements 'anywhere in the world'. The obligations under the agreement are accounted for in the GRI table.

This report also accounts for the spending of the €1.1 billion (1.25 billion USD) financing from Water Bonds. As agreed, the proceeds from this green bond have been used to grant credit to water authorities, which have used this credit to fund climate adaptation and mitigation activities. EY has established that the proceeds from the Water Bond were incorporated into an earmarked internal account and then used to grant credit to the water authorities.

Assurance report of the independent auditor

To: the General Meeting of Shareholders and the Supervisory Board of the Nederlandse Waterschapsbank N.V.

Our opinion

We have audited the chapter Corporate Social Responsibility in the Annual Report 2016 (hereafter: chapter Corporate Social Responsibility) of the Nederlandse Waterschapsbank N.V. (hereafter: NWB) at Den Haag for the year ended 2016. The scope of our audit engagement is described in the section "Our Scope". An audit engagement is aimed at obtaining reasonable assurance.

In our opinion, the chapter Corporate Social Responsibility in the Annual Report presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the related events and achievements for the year ended 2016

in accordance with the Sustainability Reporting Guidelines version G4 of Global Reporting Initiative (GRI) option Core and the supplemental internally applied reporting criteria as disclosed on page 89 of the Annual Report 2016.

Basis for our opinion

We have performed our audit on chapter Corporate Social Responsibility in accordance with Dutch law, including Dutch Standard 3810N "Assurance engagements relating to sustainability reports". Our responsibilities under this standard are further described in the section "Our responsibilities for the audit of the chapter Corporate Social Responsibility "of our report.

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

Our independence

We are independent of NWB in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) (ViO is a regulation with respect to independence) and other relevant independence requirements in The Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

Onze scope

Our scope is the chapter Corporate Social Responsibility in the Annual Report 2016.

The chapter Corporate Social Responsibility includes prospective information such as ambitions, strategy, plans, expectations and projections. Inherent to this information is that the actual results may differ in the future and are therefore uncertain. We do not provide any assurance on the achievability and feasibility of prospective information in the chapter Corporate Social Responsibility.

We have read the information on sustainability in the rest of the Annual Report 2016, and to the extent we can identify this information is consistent with the chapter Corporate Social Responsibility in scope of our audit.

Responsibilities

Responsibilities of Management

Management is responsible for the preparation of the chapter Corporate Social Responsibility in the Annual Report 2016 in accordance with the Sustainability Reporting Guidelines version G4 option Core of GRI and the supplemental internally applied reporting criteria as disclosed on page x of the Annual Report, including the identification of stakeholders and the definition of material matters. The choices made by the management board regarding the scope of the chapter Corporate Social Responsibility and the reporting policy are summarized on page 89.

Management is also responsible for such internal control as it determines is necessary to enable the preparation of the chapter Corporate Social Responsibility that are free from material misstatement, whether due to fraud or errors.

Our responsibilities for the audit of the chapter Corporate Social Responsibility

Our responsibility is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Reasonable assurance is a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and other relevant regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the chapter Corporate Social Responsibility. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our audit included amongst others:

- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of management's estimates.
- Performing an external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organization.
- Identifying and assessing the risks of material misstatement of the chapter Corporate Social Responsibility, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Interviewing management and the member of the CSR committee responsible for the sustainability's strategy, policy and performance.
- Interviewing relevant staff responsible for providing the information in the chapter Corporate Social Responsibility, carrying out internal control procedures on the data and consolidating the data in the chapter Corporate Social Responsibility.
- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the information in the chapter Corporate Social Responsibility.
- Evaluating the underlying transactions and events.
- Testing relevant data and internal and external documentation, on a sample basis, to determine the reliability of the information in the information in the chapter Corporate Social Responsibility.

The Hague, 16 March 2017

Ernst & Young Accountants LLP

w.g. drs R.J. Bleijs RA

The Water Innovation Prize

Every year, the Dutch Association of Regional Water Authorities *(Unie van Waterschappen)* and NWB Bank award the Water Innovation Prize to innovative projects that are in keeping with the tasks of the water authorities: water safety, clean water, sufficient water and water awareness. In 2016, there were 160 entries. More than 4,000 people voted via Waterinnovatieprijs.nl for the Public Award, a record number in the history of the Water Innovation Prize.

Winners of the 2016 Water Innovation Prize:
'Water Safety' Category - de Diefdijklinie, more than just a dike improvement.
'Clean Water' Category - water conservation and reuse by S.C.H.O.O.N.
'Sufficient Water' Category - Achteroever Wieringermeer, testing ground for innovative agriculture.
'Water Awareness' Category - Battle of the Beach, a learning module for primary schools.
Public Award - Zandsproeien , strengthening the dike at Nauernasche Vaart.

Jury of full praise
An expert jury chaired by Lidewijde Ongering, secretary-general of the Ministry of Infrastructure and the Environment, particularly praised the winners for their environmentally aware approach and eye for sustainability.

Accelerated procedure for the winners
The winners of the 2016 Water Innovation Prize were offered an accelerated procedure to identify wishes and needs for the future: how can this innovation be taken further? For example: is there a need for a testing ground, international roll-out or specific knowledge of a particular element of the innovation? An innovation broker helps the winner to make their wishes come true over a nine-month period.

'WATER AUTHORITIES AND RELATED COMPANIES PLAY AN IMPORTANT ROLE THAT SOMETIMES DOES NOT RECEIVE THE COVERAGE IT DESERVES. THE INDIVIDUAL AWARDS FOR EACH CORE TASK - INCLUDING WATER AWARENESS, IN OUR VIEW AN INCREASINGLY IMPORTANT TASK - PROVIDE A PLATFORM FOR INNOVATIVE PROJECTS AND FURTHER SUPPORT VIA THE INNOVATION BROKER. AS WAS THE CASE LAST YEAR, WE ARE PROUD OF THE SECTOR AS A LENDER, OF THE FACT THAT WE ARE ABLE TO PROVIDE CAPITAL FOR PROJECTS THAT HELP TO FURTHER REDUCE CO2 EMISSIONS, AND THAT LEAD TO BETTER USE OF RAW AND SECONDARY MATERIALS - THE CIRCULAR ECONOMY - AND AWARENESS OF OUR OWN ACTIONS.'

Menno Snel, Chair of NWB Bank and jury member

NWB Fonds

'IN THE FIRST TEN YEARS, THE NWB FONDS HAS DEVELOPED INTO AN ESSENTIAL SUPPORT FOR INTERNATIONAL PROJECTS BY WATER AUTHORITIES. IN THE COMING YEARS, THE FUND AIMS TO PROVIDE THE DUTCH WATER AUTHORITIES WITH AN EXTRA BOOST TO MAKE A LASTING DIFFERENCE.'

Henk J. Loijenga, Director of the NWB Fonds

Working and learning together to develop global water solutions

The NWB Fonds is ten years young! NWB Bank set up the foreign country fund of and for the water authorities on 22 December 2006. The purpose of the fund is to promote and facilitate collaboration between water authorities and public partner organisations in other countries. Three months after the fund was established, on World Water Day 2007, the leading water authorities started to implement the first projects for dry feet and clean water with co-financing from the NWB Fonds. It quickly became clear how the water authorities with their unique core skills could make a difference at an international level: the separate organisation, the sustainable finance system, stakeholder participation, horizontal and vertical performance coordination, sustainable management and maintenance of the infrastructure and – last but not least – cooperation.

There was a gradual realisation that, by contributing expertise, the water authorities could gain knowledge and new experience that would make them even stronger and more professional. This led to growing interest in international collaboration on the part of the water authorities. Thanks in part to the support of the NWB Fonds, more and more water authorities started to engage and, by 2016, all 22 water authorities and the Dutch Association of Regional Water Authorities were active at a global level. Since 2010, the NWB Fonds has encouraged the water authorities to work together more, to join forces and to learn from one another. This helps to increase effectiveness, efficiency and quality, and strengthens the position of the water authorities within the water sector, in the Netherlands and abroad. The joint water authorities are placing an increasing focus on the recent OECD principles and recommendations for good water management and governance. Step by step, the support provided by the NWB Fonds is turning into a driving force. Partnerships are lasting longer, results and learning benefits are becoming more sustainable and the average project contributions are becoming higher. The water authorities are rapidly evolving into a single entity under the umbrella of the 'Dutch Water Authorities' on the international stage, and are thereby jointly contributing towards the global agenda for Climate Adaptation and the Sustainable Development Goals.

Since it was set up, the NWB Fonds has supported 58 projects. A sound achievement that it is keen to maintain. And it will do so, as the annual income deriving from interest on the NWB Fonds has been consolidated at at least €825,000 for the next 15 years.

In 2016, water authorities were active in the following countries with support from the NWB Fonds: Burkina Faso, Colombia, Egypt, Ethiopia, Indonesia, Mozambique, Nicaragua, Swaziland, Vietnam and South Africa.

For further information www.nwbfonds.nl

7.0

REMUNERATION REPORT 2016

7.0 REMUNERATION REPORT 2016

NWB Bank seeks to express the role it fulfils in society, as a bank of and for the public sector, in its remuneration policy. In opting for a moderate and sustainable remuneration policy that is in keeping with its strategy, risk appetite and low risk profile, the remuneration policy contributes to achieving the bank's long-term objectives. The policy is unambiguous, transparent and in line with national and international rules and regulations. In addition, the bank's policy is aimed at recruiting and retaining qualified and knowledgeable employees.

Remuneration policy for the Managing Board members

Fixed remuneration

The remuneration policy for the Managing Board members was most recently amended and adopted by the General Meeting of Shareholders on 14 September 2015. The policy – which applies to Managing Board members appointed on or after 14 September 2015 – stipulates a maximum salary of €272,000, including the variable component, for the Chair of the Managing Board and a maximum of 85% of that amount for the other Managing Board members. The fixed remuneration is subject to annual indexation in line with the indexation set out in the Collective Labour Agreement for the Dutch Banking Industry (CLA).

Variable remuneration

The Managing Board members' variable remuneration equals no more than 15% of their fixed remuneration and therefore remains below the 20% bonus cap laid down in the Financial Undertakings (Remuneration Policy) Act (Wbfo). The variable remuneration is based on the relevant Managing Board member's performance, that of the business units he or she is responsible for and that of the Bank as a whole. Such performance has been quantified in terms of predefined and assessable performance criteria, set out in a performance contract that is updated each year. The variable remuneration of the Managing Board members comprises a short-term component and a long-term component. The short-term component (equalling no more than 10% of the fixed remuneration) is paid after the relevant performance year. The long-term component (equalling no more than 5% of the fixed remuneration) is paid in the fourth year after the year to which it relates, provided the pre-agreed additional long-term targets have also been achieved.

The short-term component of the variable remuneration is determined on the basis of the following categories:

- profit (in line with the targets set out in the annual budget) and the benchmark return – a maximum of 3%
- risk management (in line with internal and external sets of standards) – a maximum of 3%
- implementation of strategy/CSR policy – a maximum of 3%
- personal areas for attention and targets – a maximum of 6%.

In view of the fact that implementation of the strategic policy is deemed a collective responsibility, the percentage will be increased to 7% from 2017. The personal areas for attention and targets are deemed of lesser significance, and have therefore been reduced to 2%.

The long-term categories are as follows:

- ratings – Standard & Poor's and Moody's ratings for the Bank must equal the sovereign rating for the State of the Netherlands
- strategy – the bank's strong market position must be maintained.

At the end of each year, the Supervisory Board assesses performance against the targets set. The variable remuneration, including the conditionally granted component, will only be paid if NWB Bank's financial position allows and if it can be justified on the basis of the bank's and the relevant Managing Board member's performance. Furthermore, the Supervisory Board is authorised to apply a penalty or a clawback with respect to the variable remuneration. The authority to apply a claw-back applies to the short-term component of the variable remuneration and is valid for up to three years following payment.

In view of the nature of the business and the role the bank fulfils in Dutch society, no scenario analyses were performed in determining the level and structure of the variable remuneration.

Pensions

The pension benefits of NWB Bank's Managing Board members – and of its employees – are administered under the NWB Bank group pension plan, which has been insured with an insurance company. The bank has a single average earnings pension plan for the Managing Board members and its employees, to which a members' contribution applies. The statutory provisions applicable from 1 January 2015 concerning maximum pension accrual and contribution percentages, and the cap on pensionable income of €100,000, are included in the new pension plan. The bank offers employees earning more than €100,000 a net pension plan, which enables them to accrue pension on their gross salary exceeding €100,000.

Other terms and conditions of employment

The bank has made a car available to the Managing Board members. Otherwise, the terms and conditions of employment for Managing Board members are the same as those for the bank's other employees.

Managing Board remuneration in 2016

Fixed remuneration

Menno Snel, Chair of the Managing Board from 1 September 2016, falls under the scope of the new remuneration policy adopted on 14 September 2015. Under this new policy, a maximum salary of €272,000, including the variable component, applies to the Chair of the Managing Board and a maximum of 85% of that amount applies to the other Managing Board members. Both Lidwin van Velden, who was appointed to the Managing Board on 1 January 2010, and Frenk van der Vliet, who has been employed as a member of the Managing Board since 1 January 2012, are subject to the remuneration policy applicable prior to 14 September 2015, which was adopted on 1 January 2010. Under this policy, a maximum total (fixed and variable) remuneration of €280,000 applies to the Chair of the Managing Board and a maximum of 85% of that amount applies to the other Managing Board members (after indexation, €245,819 from 1 January 2016).

Ron Walkier, who retired with effect from the 26 April 2016 Annual General Meeting of Shareholders upon reaching retirement age, had served as a member of the Managing Board since 1993 and as Chair of the Managing Board since 2008, and consequently was subject to the remuneration policy applicable prior to 1 January 2010. Indexation of the fixed remuneration amounted to 1% in 2016 in connection with the increase under the CLA with effect from 1 January 2016.

Variable remuneration

In February 2017, the Remuneration and Appointment Committee assessed the actual performance of the Managing Board members against the performance criteria set out in the performance contract, concluding that the targets had been fully achieved. During the assessment, the Remuneration and Appointment Committee took into account that Lidwin van Velden and Frenk van der Vliet had assumed the duties of the Chair of the Managing Board in the interim period from 26 April to 1 September 2016 (the period between Ron Walkier's retirement and Menno Snel taking up the position of Chair of the Managing Board). The Remuneration and Appointment Committee subsequently submitted a proposal to the Supervisory Board concerning the variable remuneration of the individual Managing Board members.

Performance assessment of the Managing Board members

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

Of the maximum 15% variable remuneration to be granted to the Managing Board members, 15% was awarded to all the members. Two-thirds (10%) of the variable remuneration comprises the short-term component and one third (5%) the long-term component, awarded on a conditional basis. The amount awarded to Menno Snel is commensurate with his employment period in 2016.

Ron Walkier, who served as Managing Board Chairman until the 26 April 2016 Annual General Meeting of Shareholders, waived the short-term component of his variable remuneration for the period up to and including April 2016 as well as the long-term component for 2013, given the current suspension of dividend distributions. The Supervisory Board therefore decided not to conduct a further target-based performance assessment for him.

Components	Target	Result
Profit and benchmark return (3%)	Profit in line with the targets set out in the annual budget	3% – fully achieved
Risk management (3%)	In line with internal and external sets of standards	3% – fully achieved
Implementation of strategy / CSR policy (3%)	In line with the targets in the annual Policy Memorandum	3% – fully achieved
Personal areas for attention (6%)	Menno Snel Lidwin van Velden Frenk van der Vliet	6% – fully achieved 6% – fully achieved 6% – fully achieved

Remuneration of the Managing Board members

(in thousands of euros)	Fixed remuneration	Short-term variable remuneration	Payment of long-term variable remuneration 2013	Pension: Contribution	Pension: Benefit in connection with cap on pensionable salary at €100,000
2016					
Menno Snel [1]	79	8	n/a	16	0
Lidwin van Velden	214	21	10	57	7
Frenk van der Vliet	214	21	10	52	10
Ron Walkier [2]	94	-	-	33	5
Total	**601**	**50**	**20**	**158**	**22**

1) joined NWB Bank on 1 September 2016.
2) retired with effect from the 26 April 2016 Annual General Meeting of Shareholders upon reaching retirement age.

(in thousands of euros)	Fixed remuneration	Short-term variable remuneration	Payment of long-term variable remuneration 2013	Pension: Contribution	Pension: Benefit in connection with cap on pensionable salary at €100,000[1]
2015					
Ron Walkier	280	-	-	98	13
Lidwin van Velden	212	18	10	58	7
Frenk van der Vliet	212	18	10	53	10
Total	**704**	**36**	**20**	**209**	**30**

The Managing Board members are granted a partly taxed annual expense allowance of €2,800 each.

Long-term variable remuneration 2013

In February 2017, the Remuneration and Appointment Committee compared the actual results recorded by NWB Bank with the long-term targets set in 2013 (Standard & Poor's and Moody's ratings for the bank equal the sovereign rating of the Dutch State, and retention of the bank's strong market position), concluding that those targets had been achieved. On the proposal of the Remuneration and Appointment Committee, the Supervisory Board decided to release the deferred long-term component for payment (see the above breakdown). As stated earlier, Managing Board Chair Ron Walkier waived his long-term variable remuneration for 2013, given the prevailing suspension of dividend distributions.

1) with effect from 2015, the pensionable salary has been maximised for tax purposes at €100,000. The contribution made available above €100,000 may be used for the net pension plan.

Employee remuneration policy

Fixed remuneration

The employee remuneration policy applies in full to all employees, irrespective of their positions or job scales, in terms of both fixed and variable remuneration. NWB Bank applies the Collective Labour Agreement for the Dutch Banking Industry (the CLA). The fixed remuneration comprises 12 monthly salaries, 8% holiday allowance and a 13th month's salary payment, subject to annual indexation in line with the structural salary adjustments laid down in the CLA. Furthermore, a maximum performance assessment supplement of 15% may be granted in excess of the job-specific salary. This supplement is applied with restraint and in stages, usually only if an employee has demonstrated good performance and has reached the end of his or her salary scale.

Variable remuneration

Employees' variable remuneration comprises a bonus payment of up to 7% and a profit-sharing payment of up to 7.5%. Both plans contain a penalty and a claw-back provision.

In determining the variable remuneration under the bonus payment plan, employee performance is carefully assessed on the basis of the following aspects:

- achievement of the targets defined for the relevant calendar year
- the manager's final assessment
- any applicable adjustment in connection with findings relating to unwarranted risks or compliance issues
- the Managing Board's opinion.

NWB Bank's remuneration policy principally centres on performance criteria that relate to quality and the performance of an employee's duties. In setting the targets, the bank's long-term objectives, as set out in the Policy Memorandum, and its core values (consciousness, engagement and reliability) are taken into account. Acting with due care and doing so in the customer's interest are also taken into account. Employees have a say in setting and adjusting their targets. An average variable remuneration under the bonus plan of 5.37% per employee (excluding the Managing Directors) was granted in 2016. The total variable remuneration for employees (for 2016) that will be paid in 2017 amounts to €384,690.21 (bonus payment plan and profit-sharing plan).

Pensions

The pension benefits of the employees - and of the Managing Board members – are administered under the NWB Bank group pension plan, which has been insured with an insurance company. The bank has a single average earnings pension plan for both the Managing Board members and employees, to which a members' own contribution applies. The bank offers a net pension plan for salaries exceeding €100,000.

Other terms and conditions of employment

The bank offers its employees various other secondary employment conditions, such as supplementary incapacity for work insurance, a staff mortgage loan discount plan, reimbursement of study expenses and a bicycle plan. Cars are made available to employees whose positions necessitate or justify the use of a car.

Pay ratio

The bank determines the pay ratio between the CEO and the other employees on the basis of the Global Reporting Initiative (GRI) standard 'G4-54'. According to this standard, the pay ratio is the ratio between the total remuneration of the highest paid employee and the median of the total remuneration of all other employees (including the other Managing Board members). The total remuneration comprises the fixed and variable remuneration and current service costs.

The fixed remuneration of the employees and Managing Board members of NWB Bank in 2016 comprises 12 monthly salaries, 8% holiday allowance and a 13th month's salary payment. The variable remuneration of employees in 2016 comprises 7.5% profit distribution for 2015 and a performance allowance for 2015. The variable remuneration of Managing Board members in 2016 comprises the short- and long-term variable remuneration for 2015. The current service costs consist of the components 'average pay costs up to €101,519 minus the employer's contribution, 'the employer's contribution above €100,000 minus the employee's contribution' and 'compensation for the old pension plan (prior to 2015), where applicable'.

Given that the Chair of the Managing Board (CEO) of NWB Bank had not been employed for a full financial year, the following principles applied to him:

Fixed remuneration: 12 monthly salaries, 8% holiday allowance and a 13th month's salary. Variable remuneration: the short-term variable remuneration is equal to that of the other Managing Board members (8.67%). The long-term remuneration has been excluded since it will only apply from 2020.

Based on the above principles, the pay ratio between the Chair of the Managing Board and the median of NWB Bank's other employees is 4.22 for 2016.

Supervisory Board remuneration

The current remuneration level of the Supervisory Board members remains unchanged from 2003 and is based on a fixed allowance, supplemented with expense and meeting allowances. No indexation has taken place since that year.

On the advice of the Remuneration and Appointment Committee, in 2016 the Supervisory Board compared the Supervisory Board remuneration with the best practices of comparable publicly held participating interests and businesses, based partly on a benchmark survey carried out by an external agency in 2015. The conclusion drawn from this survey was that the current remuneration of the Supervisory Board members is rather low compared with that of their peers and that the system and structure of allowances for Supervisory Board members is not entirely in line with the market. Furthermore, the Ministry of Finance announced that the remuneration of Supervisory Board members at publicly held participating interests may be retroactively increased by the CLA percentage increase applicable to the publicly held participating interest, from 1 January 2015.

Proposal to shareholders

Although the range of duties, job content and level of complexity of Supervisory Board membership has increased in recent years and many similar businesses have set the remuneration of Supervisory Board members at distinctively higher levels, taking all factors into consideration the Supervisory Board has decided to maintain the current level of remuneration, including the CLA percentage increase for 2015 and 2016. This implies stabilisation of the remuneration at the current level, on the understanding that there will no longer be separate meeting and expense allowances, but rather fixed allowances for members of the Supervisory Board and its committees. Moreover, the separate remuneration for the Deputy Chair has been abolished. No additional allowance will apply to the split-up of the Audit and Risk Committee into two separate committees, due to the identical composition of both committees. The Supervisory Board will submit the new remuneration structure for decision-making to the Annual General Meeting of Shareholders to be held on 20 April 2017. The Supervisory Board will concurrently propose that the remuneration be evaluated every five years.

Supervisory Board remuneration in 2016

The remuneration in 2016 was as follows:

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

The following expense allowance scheme applies:

- an attendance fee of €750 for each meeting, for both Audit and Risk Committee members and Remuneration and Appointment Committee members
- a fixed annual fee of €4,000 for Audit and Risk Committee members and €3,000 for Remuneration and Appointment Committee members.

The remuneration of the Supervisory Board has no variable components nor options plans.

The remuneration of the Supervisory Board members was as follows:

(in thousands of euros)	2016	2015
Age Bakker [1][2][3]	32	32
Maurice Oostendorp [2][4]	23	21
Else Bos	7 [5]	19
Peter Glas [3][6]	18	18
Petra van Hoeken [2]	21	14 [7]
Manfred Schepers [2][8]	14	-
Albertine van Vliet-Kuiper [3]	18	18
Berend-Jan van Voorst tot Voorst	6 [9]	16
Total	**139**	**138**

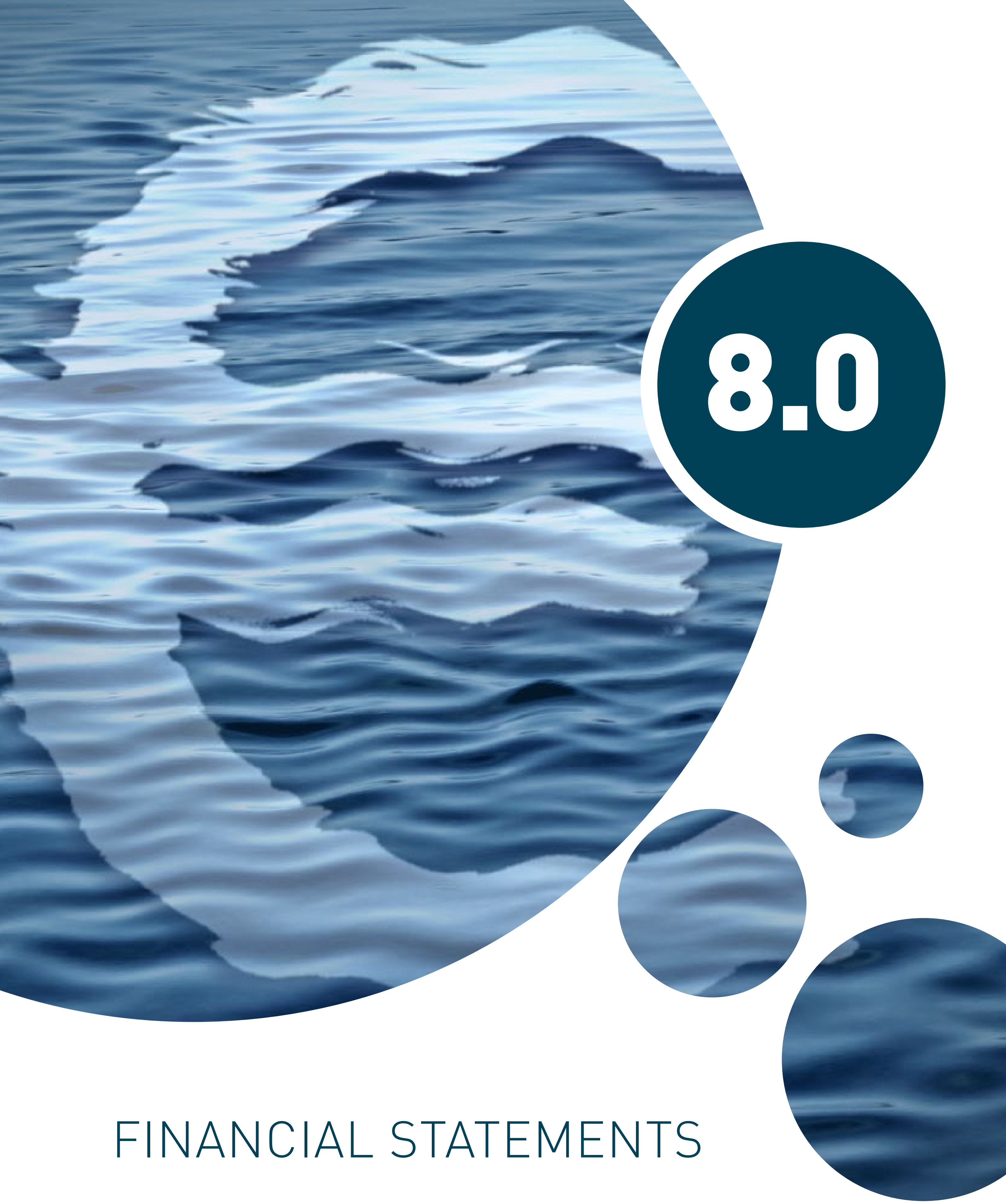
The above amounts exclude general expense reimbursements, health insurance premiums, travel expense allowances and VAT, where applicable.

1) Chair
2) Member of the Audit Committee and Risk Committee
3) Member of the Remuneration and Appointment Committee
4) Deputy Chair with effect from the 23 April 2015 Annual General Meeting
5) Else Bos retired from office on 26 April 2016
6) Deputy Chair until the 23 April 2015 Annual General Meeting
7) Petra van Hoeken was appointed as a Supervisory Board member on 23 April 2015
8) Manfred Schepers was appointed as a Supervisory Board member on 26 April 2016
9) Berend-Jan van Voorst tot Voorst retired from office on 26 April 2016

Regulations and proportionality

The bank's remuneration policy is in line with the applicable national and international regulations, including the Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014 (Rbb) of DNB, which has implemented the relevant provisions of CRD IV with effect from August 2014, the Wbfo, the EBA Criteria and the CEBS Guidelines. The bank will promptly implement any amendments made to CRD V concerning remuneration. The CRD V proposals are not expected to take effect before 1 January 2019.

With respect to the application of a number of elements of the Rbb, the bank invokes the proportionality principle. This means that the bank does not apply certain elements in view of the bank's low risk profile and the modest amount of variable remuneration. This relates first and foremost to the payment of at least 50% of the variable remuneration in shares or other instruments. The reasons are that the bank has no listed shares and that developing a programme or plan for the payment in comparable instruments would involve disproportionately high costs and administrative expenses. In addition, the bank does not fully apply the rule that stipulates that the long-term component of the variable remuneration should amount to at least 40%. The variable remuneration of the Managing Board comprises a smaller long-term component (one third) and the variable remuneration of employees has no long-term component at all. Again, application of the rule would involve disproportionately high costs and administrative expenses.



8.0

FINANCIAL STATEMENTS

8.0 Statement of income

for the year ended 31 December 2016

(in millions of euros)	Notes	2016	2015
Interest and similar income		**1,680**	1,785
Interest and similar expenses		**1,462**	1,608
Net interest income	1	**218**	177
Results from financial transactions	2	**-25**	-6
Other operating income		**0**	0
Total operating income		**193**	171
Employee benefits expense	3	**8**	8
Other administrative expenses	4	**9**	8
Employee benefits expense and other administrative expenses		**17**	16
Depreciation, amortisation and value adjustments of tangible and intangible assets	5	**2**	2
Bank tax and resolution levy	6	**25**	21
Total operating expenses		**44**	39
Profit from ordinary operations before tax		**149**	132
Tax on profit from ordinary operations	7	**42**	37
Net profit		**107**	95

Balance sheet

as at 31 December 2016 before profit appropriation

(in millions of euros)	Notes	2016	2015
Assets			
Cash, cash equivalents and deposits at the Central Bank	8	**7,246**	6,766
Banks	9	**10,508**	8,908
Loans and receivables	10	**64,496**	63,576
Interest-bearing securities	11	**3,925**	3,851
Intangible assets	12	**2**	3
Tangible assets	13	**6**	5
Other assets	14	**0**	0
Derivative assets	15	**8,228**	8,204
Prepayments	16	**3**	1
Total assets		**94,414**	91,314
Liabilities			
Banks	17	**2,692**	2,455
Funds entrusted	18	**6,060**	5,371
Debt securities	19	**67,232**	67,478
Provisions	20	**30**	24
Income tax	21	**22**	29
Other liabilities	22	**55**	53
Derivative liabilities	23	**16,482**	14,302
Accruals	24	**8**	1
		92,581	89,713
Subordinated debt	25	**326**	202
Paid-up and called-up share capital	26	**7**	7
Revaluation reserves	27	**3**	0
Other reserves	28	**1,390**	1,297
Unappropriated profit for the year	29	**107**	95
Equity		**1,507**	1,399
Total liabilities		**94,414**	91,314
Irrevocable commitments	30	**3,865**	2,518
Contingent liabilities	31	**60**	68

Statement of comprehensive income

for the year ended 31 December 2016

(in millions of euros)	2016	2015
Net changes in the revaluation reserves	**3**	0
Net changes in other reserves	**-2**	1
Income tax on income and expenses recognised directly in equity	**0**	0
Income and expenses recognised directly in equity	**1**	1
Net profit	**107**	95
Comprehensive income	**108**	96

Statement of changes in equity

for the year ended 31 December 2016

(in millions of euros)	Paid-up share capital	Revaluation reserves	Other reserves	Unappro-priated profit for the year	Total
As at 1 January 2015	**7**	**0**	**1,247**	**49**	**1,303**
Profit appropriation of previous year			49	-49	-
Dividend			-		-
Direct change in the value of equity		0	1		1
Profit for the year				95	95
As at 31 December 2015	**7**	**0**	**1,297**	**95**	**1,399**
As at 1 January 2016	**7**	**0**	**1,297**	**95**	**1,399**
Profit appropriation of previous year			95	-95	-
Dividend			-		-
Direct change in the value of equity		3	-2		1
Profit for the year				107	107
As at 31 December 2016	**7**	**3**	**1,390**	**107**	**1,507**

Statement of cash flows

for the year ended 31 December 2016

(in millions of euros)	Notes	2016	2015
Profit before income tax		**149**	132
Adjusted for:			
Depreciation, amortisation and value adjustments of tangible and intangible assets		**2**	2
Unrealised change in the value of assets and liabilities for fair value accounting		**-234**	-261
Bank loans and receivables not available on demand	9,17	**-1,309**	2,487
Public sector loans and receivables	10	**1,169**	-48
Funds entrusted	18	**686**	-39
Other assets and liabilities		**-213**	186
Net cash flows used in operating/banking activities		**250**	2,459
Additions to interest-bearing securities	11	**-1,362**	-1,290
Sale and redemptions of interest-bearing securities	11	**1,323**	1,774
		-39	484
Additions to tangible assets	13	**-1**	-1
Disposals	13	**0**	0
		-1	-1
Additions to intangible assets	12	**-1**	-1
Net cash flows used in investing activities		**-41**	482
Long-term debt securities issued	19	**11,372**	9,397
Redemption of long-term debt securities	19	**-7,701**	-11,258
Short-term debt securities issued	19	**36,078**	33,103
Redemption of short-term debt securities	19	**-39,599**	-28,119
Subordinated debt issued	19	**121**	200
		271	3,323
Dividend paid	29	**-**	-
Net cash flow from financing activities		**271**	3,323
Net cash flow		**480**	6,264

(in millions of euros)	Notes	2016	2015
Cash flow		**480**	6,264
Cash and cash equivalents as at 1 January		**6,766**	502
Cash and cash equivalents as at 31 December		**7,246**	6,766

In 2016, the interest paid amounted to €1,295 million (2015: €1,574 million) and the interest received amounted to €1,623 million (2015: €1,760 million). These amounts are included under Other assets and liabilities in the statement of cash flows. In 2016, the income tax paid amounted to €15.6 million and the bank tax paid amounted to €19.8 million.

Notes to the financial statements

Corporate information

The 2016 financial statements of Nederlandse Waterschapsbank N.V. (hereinafter referred to as NWB Bank, Chamber of Commerce no. 27049562) were prepared by the Managing Board and authorised for issue by the Supervisory Board on 16 March 2017, and will be submitted for approval to the Annual General Meeting of Shareholders (AGM) on 20 April 2017.

NWB Bank is a public limited liability company under Dutch law with its official place of business in The Hague, whose shares are owned by public authorities. NWB Bank's services are geared towards the public sector. It finances water authorities, municipal and provincial authorities as well as other public-sector bodies, such as housing corporations, hospitals, educational institutions, water supply companies and Public-Private Partnership (PPP) projects.

Basis of preparation

Statement of compliance

The financial statements of NWB Bank have been prepared in accordance with the statutory requirements contained in Title 9 of Book 2 of the Dutch Civil Code and the accounting principles generally accepted in the Netherlands (NL GAAP). NWB Bank has no participating interests and prepares company financial statements.

Summary of significant accounting policies

General

These financial statements have been prepared on the basis of historical cost, with the exception of certain interest-bearing securities, derivatives and property. These are stated at fair value. The matching principle is applied to costs and revenue. The financial statements are presented in millions of euros and all amounts in the Notes are rounded to the nearest thousand (€000), unless stated otherwise.

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

Continuity

The financial statements have been prepared on the basis of the going-concern assumption.

System reforms
Property is carried at current value. The replacement value was used for the valuation at current value until the end of 2015. This was changed with effect from 1 January 2016 pursuant to the amended Valuation at Current Cost Decree and property is now carried at the lower of current cost and net realisable value. This system reform has no significant impact on equity and profit or loss.

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

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 principle) 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 principle 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 transaction costs directly attributable to the asset's or liability's acquisition or issue, with the exception of the transactions recorded at fair value through profit or loss. The 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 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 the size of the projected future cash flows. Option pricing models have been used to calculate the fair value of options.

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

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

Hedge accounting

The bank hedges most interest rate and foreign exchange risks related to financial assets and liabilities by using financial instruments. In terms of market value, value changes due to interest rate and foreign exchange fluctuations are set off. Under hedge accounting, the recognition of a hedging instrument and the accompanying hedged position can be synchronised insofar as the hedging is effective. Hedge accounting is permitted only if adequate documentation has been prepared and the required effectiveness of the hedge is demonstrated. NWB Bank only uses derivative financial instruments as hedging items, and these are stated at fair value in the balance sheet. Together with the value changes in the hedged position related to the covered risk, value changes in the derivatives which are part of the fair value hedge are recorded in profit or loss as results from financial transactions.

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the 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 translated at the rates ruling on the transaction date. All currency translation differences of monetary assets and liabilities are recognised in profit or loss.

Currency swaps are used to hedge foreign exchange exposures on loans receivable and payable. These currency swaps are translated at the fair value of the instrument ruling at the balance sheet date. The results are recorded as results from financial transactions.

Loans and receivables and banks

Loans and receivables and banks are stated at amortised cost using the effective interest method, reduced by a provision for uncollectible receivables.

Interest-bearing securities

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

Interest-bearing securities held to maturity

Loans granted and receivables and purchased interest-bearing securities with fixed or determinable payments which NWB Bank firmly intends to hold to maturity, and for which it has the contractual and economic ability to do so, are stated at amortised cost using the effective interest method.

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 derecognised, the cumulative unrealised gain or loss on an individual asset recorded directly in equity is taken to profit or loss. Any cumulative decrease in value below cost is immediately taken to profit or loss. Any subsequent unrealised increase in value of the relevant interest-bearing security 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. If financial assets are derecognised, the cumulative profit recognised in equity or the cumulative loss is recognised in profit or loss.

Intangible assets

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

Tangible fixed assets

Tangible fixed assets are property and equipment. Property is stated at current value, being the lower of current cost and net realisable value. Equipment is stated at acquisition price less straight-line depreciation.

The current value of property is assessed annually and measured regularly based on valuations conducted by independent property valuers. Depreciation of these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

The annual depreciation rates are:

Building	2.5%
Fixtures and installations	10%
Equipment, furniture and fittings, etc.:	
- furniture and fittings, etc.	10%
- office equipment	20%
Computer equipment:	
- personal computers	20%
- other equipment	20%
Cars	20%

Land is not depreciated.

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

Derivatives

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

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

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. Any discrepancies between a financial instrument's fair value and the value under the bank's measurement models are amortised over the instrument's term. Derivatives are also subsequently remeasured at fair value 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, which include 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; and
- the host contract is not carried at fair value through profit or loss; and
- a separate instrument having the same characteristics would be classified as a derivative

Derivatives meeting these characteristics are included in the balance sheet under the host contract 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.

Employee benefits – defined benefit plan obligations

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

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

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

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

Netting of financial assets and financial liabilities

A financial asset and a financial liability are netted and reported on a net basis if there is a legally enforceable right to set off 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

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

Income tax

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

Current tax assets and liabilities

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

Deferred tax assets and liabilities

Deferred tax assets are recognised for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses, if it is probable that taxable profit will be available against which the deductible temporary differences can be set off, and the deductible temporary differences, carry-forwards 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 if it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which 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 set them off exists.

Basis for preparation of the statement of cash flows

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

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

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

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

Segment information

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

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 which cannot be easily established from other sources. The actual outcomes may therefore 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 liabilities stated at fair value.

1 Net interest income

Interest income consists of income on loans and receivables, interest-bearing securities, cash, cash equivalents and deposits at the Central Bank, as well as commission having the nature of interest, 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 expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as interest-like commission, fees paid for early redemption, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

	2016	2015
Interest income on cash, cash equivalents and deposits at the Central Bank and Loans and receivables at amortised cost	**1,655,038**	1,744,620
Interest income on interest-bearing securities	**21,873**	38,192
Commission	**1,404**	0
Negative interest expense	**1,998**	2,564
Interest income	**1,680,313**	1,785,376
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	**-551,098**	-714,027
Derivatives (net interest income/expense)	**-832,447**	-867,468
Negative interest income	**-78,437**	-26,503
Interest expense	**-1,461,982**	-1,607,998
Net interest income	**218,331**	177,378

Negative interest income concerns the negative interest on the 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 the financial liabilities banks, funds entrusted and debt securities.

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

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

	2016	2015
Changes in the fair value of derivatives included in Macro hedge accounting	**-2,107,746**	-1,630,870
Revaluation of financial assets and liabilities included in hedge accounting	**2,106,024**	1,627,715
Macro hedge accounting ineffectiveness	**-1,722**	-3,155
Micro hedge accounting ineffectiveness	**32**	-219
Total hedge accounting ineffectiveness	**-1,690**	-3,374
Other changes in the fair value of restructured derivatives included in hedge accounting	**-54,477**	-32,156
Changes in the fair value of derivatives not included in hedge accounting	**554**	-541
Change in counterparty credit risk (CVA/DVA)	**-487**	-3,562
Results from maturity extensions and early redemptions	**24,902**	33,403
Other fair value changes	**6,646**	-613
Total	**-24,522**	-6,843

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. The restructuring of the derivatives portfolio has a favourable effect on net interest income (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 of 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. On the assets side of the balance sheet, the fair value when applying hedge accounting to the financial instruments is €19,302 million at 31 December 2016 (31 December 2015: €16,982 million); on the liabilities side, it is €18,555 million at 31 December 2016 (31 December 2015: €16,469 million).

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

3 Employee benefits expense

The average number of employees expressed in FTEs, including the Managing Board, totalled 53.2 at the end of the financial year (2015: 49.6). Three FTEs are members of the Managing Board, nine are department heads and 41.2 are staff members.

	2016	2015
Wages and salaries	**4,879**	4,729
Pension costs	**1,489**	1,454
Other social security costs	**473**	458
Other staff costs	**820**	869
	7,661	7,510

In 2016, salary costs rose as a result of an increase in the number of employees and indexation under the collective bargaining agreement plus annual increments.

Upon reaching retirement age on 1 May 2016, Ron Walkier retired as Chairman of the Managing Board. He was succeeded by Menno Snel on 1 September. The remuneration of the Managing Board members, including regular pension costs and other specific components as shown in the table below, amounted to €902,000 in 2016 (2015: €1,026,000).

	Fixed remuneration	Variable remuneration short-term component	Variable remuneration long-term component 1)	Pension contribution	Other	Total
2016						
Menno Snel	79	8	4	16	4	111
Lidwin van Velden	214	21	11	57	15	318
Frenk van der Vliet	214	21	11	52	15	313
Ron Walkier	94	-	5	33	28	160
Total	**601**	**50**	**31**	**158**	**62**	**902**

	Fixed remuneration	Variable remuneration short-term component	Variable remuneration long-term component 2)	Pension contribution	Other	Total
2015						
Lidwin van Velden	212	18	9	58	17	314
Frenk van der Vliet	212	18	9	53	14	306
Ron Walkier	280	-	12	98	16	406
Total	**704**	**36**	**30**	**209**	**47**	**1,026**

1) this is the long-term variable remuneration determined on a conditional basis for 2016, to be assessed in 2020.
2) this is the long-term variable remuneration determined on a conditional basis for 2015, to be assessed in 2019.

The fixed remuneration comprises the fixed salary for 13 months as well as an 8% holiday allowance.

The Supervisory Board has decided to definitively grant the long-term component of the variable remuneration for 2013. The long-term component for 2013 definitively granted to both Lidwin van Velden and Frenk van der Vliet amounts to €10,000. The 2013 variable remuneration does not apply to Menno Snel, given that he only joined the bank on 1 September 2016. The conditional award of the long-term component of his 2016 variable remuneration amounts to €4,000, which is 5.0% of his 2016 fixed remuneration.

Former Managing Board Chairman Ron Walkier waived the short-term component of his variable remuneration for the period up to and including April 2016 as well as the long-term component for 2013, given the current suspension of dividend distributions.

The remaining benefits recorded under Other are specified as follows:

An expense allowance; Lidwin van Velden and Frenk van der Vliet each received a taxed expense allowance of €3,000 in 2016. Menno Snel and Ron Walkier each received a taxed expense allowance of €1,000 in 2016.

A staff mortgage loan discount plan; in 2016, this untaxed allowance amounted to €1,000 for Menno Snel, €5,000 for Lidwin van Velden (2015: €7,000) and €2,000 for Frenk van der Vliet (2015: €1,000).

Compensation for the loss of pension accrual above €100,000; in 2016, this untaxed allowance amounted to €7,000 for Lidwin van Velden (2015: €7,000), €10,000 for Frenk van der Vliet (2015: €10,000) and €5,000 for Ron Walkier (2015: €13,000).

A jubilee bonus; in 2016, Ron Walkier received a jubilee bonus of €20,000.

The bank has also made a car available to the Managing Board members.

4 Other administrative expenses

This item includes accommodation, office and general expenses. The remuneration of the seven (2015: seven) Supervisory Board members which is also included in this item amounted to €185,000 (2015: €188,000).

Remuneration of the Supervisory Board members

(in thousands of euros)	2016	2015
Age Bakker	**45**	44
Else Bos	**10**	27
Peter Glas	**25**	25
Petra van Hoeken	**28**	19
Maurice Oostendorp	**31**	29
Albertine van Vliet-Kuiper	**23**	23
Manfred Schepers	**15**	-
Berend-Jan van Voorst tot Voorst	**8**	21
	185	188

The above amounts include allowances for participation in committees, general expense reimbursements and travel expense reimbursements, including VAT where applicable. A further breakdown is provided in the remuneration report.

Auditor's fees

In the financial year, the following fees were recognised, within the meaning of Section 382a of Book 2 of the Dutch Civil Code. The costs of auditing the financial statements relate to the relevant financial year. The amounts stated include VAT.

	2016	2015
Audit of the financial statements	**293**	319
Other assurance engagements	**130**	201
Other non-assurance services	**-**	-
	423	520

The total costs of other assurance engagements in 2016 includes €83,000 for the previous external auditor, which mainly represents the costs of comfort letters in order to raise funding in the first half of 2016.

5 Depreciation

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

6 Bank tax and resolution levy

NWB Bank has been liable for bank tax with effect from October 2012. The amounts for 2016 and 2015 are based on the balance sheet at year-end 2015 and 2014, respectively, and charged to profit for 2016 and 2015, respectively.

Bank tax is based on the ratio of current liabilities at the end of the previous financial year amounting to € 25,835 million (2015: € 22,006 million) and long-term liabilities for the previous financial year amounting to € 64,080 million (2015: €64,940 million). The total amount of bank tax paid in 2016 was €19.8 million (2015: €18.5 million).

Under the Bank Recovery and Resolution Directive (BRRD), the bank is required to pay a resolution levy. The levy for the year 2016 was paid to the Single Resolution Fund and amounted to €6.9 million. Of this amount, €1.1 million was paid in the form of Irrevocable Payment Commitments and €5.8 million was charged to the profit for 2016.

7 Income tax expense

	2016	2015
Profit before income tax	**149,362**	131,686
Income tax at 25.0%	**37,340**	32,922
Non-deductible expenses relating to bank tax	**4,943**	4,617
Other non-deductible expenses and adjustments for prior financial years	**-274**	-559
Income tax expense	**42,009**	36,980
Effective tax burden (%)	**28.1%**	28.1%

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

	2016	2015
Current tax		
For the current financial year	**37,756**	28,809
Income tax adjustments for prior financial years	**-269**	-553
	37,487	28,256
Deferred tax		
Release of deferred tax asset arising when the bank first became liable for tax	**1,486**	1,916
Release/addition relating to provision for pensions	**-465**	66
Income tax on income and expenses recognised directly in equity	**280**	-287
Results from 'basisrentelening' loans deferred for tax purposes	**-786**	-786
Results from maturity extensions deferred for tax purposes	**4,007**	6,794
Change due to unrealised changes in value and changes in measurement	**-**	1,021
	4,522	8,724
Income tax expense	**42,009**	36,980

The effective tax burden is higher than the current 25% tax rate mainly because bank tax is non-deductible.

8 Cash, cash equivalents and deposits at the Central Bank

This item consists of legal tender and on-demand and other balances at the Dutch Central Bank (De Nederlandsche Bank – DNB) and the ECB.

9 Banks

This item mainly comprises collateral held under collateral arrangements related to derivative contracts. This collateral is not at the bank's disposal.

This item can be broken down as follows:

	2016	2015
Balances payable on demand	**55**	55
Receivables under collateral arrangements	**10,408,494**	8,865,921
Receivables guaranteed by the Dutch government	**99,686**	41,709
Total	**10,508,235**	8,907,685

10 Loans and receivables

This item consists of loans and receivables, other than interest-bearing securities, from customers other than banks. The receivables, almost all of which relate to the 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.

The movements in loans and receivables are shown below:

	2016	2015
As at 1 January	**63,575,761**	64,665,625
Newly granted long-term loans	**5,896,353**	7,112,769
Newly granted short-term loans	**11,791,000**	15,200,399
Redemptions	**-18,833,930**	-21,320,214
Value adjustment for fair value hedge accounting	**2,066,775**	-2,081,742
Value adjustment for separated derivatives embedded in loans and receivables	**61**	-1,076
As at 31 December	**64,496,020**	63,575,761

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

	2016	2015
Receivables from or guaranteed by the Dutch government	**50,368,606**	51,550,221
Other receivables from the public sector and miscellaneous	**527,425**	492,387
Value adjustment for fair value hedge accounting	**13,602,927**	11,536,152
Fair value of separated derivatives embedded in loans and receivables	**-2,938**	-2,999
	64,496,020	63,575,761

Receivables from or guaranteed by the Dutch government can be broken down as follows:

	2016	2015
Water authorities	**6,706,846**	6,340,761
Municipal authorities	**6,542,668**	7,144,581
Social housing	**32,462,827**	33,153,922
Other	**4,656,265**	4,910,957
	50,368,606	51,550,221

Given the risk profile of NWB Bank's customers, a provision for uncollectible receivables is not necessary at the balance sheet date. At the end of 2016, an exposure amounting to €23 million was classified as a performing forborne exposure.

The separated derivatives embedded in the loans and receivables are separated structured components included in the interest terms.

The collateral value of the portion of the loans and receivables portfolio contributed as collateral to DNB amounted to €11.5 billion at the end of 2016 (€12.1 billion at the end of 2015). Of the loans and receivables, a nominal €2.5 billion have a remaining term to maturity of less than 12 months (2015: €3.3 billion).

	2016	2015
Outstanding loans to and receivables from former members of the Managing Board:	**-**	294

11 Interest-bearing securities

This item can be broken down as follows:

	2016	2015
Interest-bearing securities held to maturity	**2,261,370**	2,897,527
Other listed interest-bearing securities	**1,289,865**	887,006
Other unlisted interest-bearing securities	**373,274**	66,631
	3,924,509	3,851,164

The movements in interest-bearing securities in 2016 and 2015 were as follows:

	Public sector bodies	Other	Total
As at 1 January 2016	1,303,152	2,548,012	**3,851,164**
Purchases	369,200	993,202	**1,362,402**
Sales and redemptions	-681,265	-641,307	**-1,322,572**
Category change	107,000	-107,000	**-**
Value changes in Other interest-bearing securities	-3,310	36,825	**33,515**
As at 31 December 2016	1,094,777	2,829,732	**3,924,509**

The collateral value of the portion of the interest-bearing securities portfolio contributed as collateral to DNB was €0.9 billion at the end of 2016 (€1.6 billion at the end of 2015). Furthermore, in 2016 €0.2 billion in collateral was issued to a banking counterparty (2015: € 0.2 billion). Of the Interest-bearing securities, a nominal €303 million (2015: €1,161 million) have a remaining term to maturity of less than twelve months.

	Public sector bodies	Other	Total
As at 1 January 2015	1,798,067	2,562,388	**4,360,455**
Purchases	1,075,000	215,000	**1,290,000**
Sales and redemptions	-1,539,400	-234,359	**-1,773,759**
Value changes in Other interest-bearing securities	-30,515	4,983	**-25,532**
As at 31 December 2015	1,303,152	2,548,012	**3,851,164**

12 Intangible assets

This item comprises capitalised expenses related to software. The breakdown of this item in 2016 and 2015 is as follows:

	2016	2015
Carrying amount as at 1 January	**2,611**	2,790
Additions	**613**	1,166
Amortisation	**-1,280**	-1,345
Carrying amount as at 31 December	**1,944**	2,611

The cumulative amounts as at 31 December are as follows:

	2016	2015
Additions	**9,366**	8,752
Amortisation	**-7,422**	-6,141
Carrying amount as at 31 December	**1,944**	2,611

13 Tangible assets

This item comprises capitalised expenses related to the office building and other equipment. The fair value of the office building was redetermined on the basis of a valuation by an independent property valuer. Other equipment consists mainly of furniture and fittings, computer equipment and cars. The breakdown of this item in 2016 is as follows:

	Property in use by the bank	Other equipment	Total
Carrying amount as at 31 December 2015	4,192	852	**5,044**
Revaluation 2016	1,295	-	**1,295**
Additions 2016	168	520	**688**
Disposals 2016	-	-45	**-45**
Depreciation in 2016	-595	-343	**-938**
Carrying amount as at 31 December 2016	5,060	984	**6,044**

The cumulative amounts as at 31 December were as follows:

	Property in use by the bank	Other equipment	Total
Additions	9,789	7,647	**17,436**
Depreciation	-6,282	-6,663	**-12,945**
	3,507	984	**4,491**
Revaluations	1,553	-	**1,553**
Carrying amount as at 31 December 2016	5,060	984	**6,044**

The breakdown of this item in 2015 is follows:

	Property in use by the bank	Other equipment	Total
Carrying amount as at 31 December 2014	4,384	818	**5,202**
Additions 2015	334	343	**677**
Disposals 2015	-	-6	**-6**
Depreciation in 2015	-526	-303	**-829**
Carrying amount as at 31 December 2015	4,192	852	**5,044**

The cumulative amounts as at 31 December are as follows:

Additions	9,621	7,290	**16,911**
Depreciation	-5,687	-6,438	**-12,125**
	3,934	852	**4,786**
Revaluations	258	-	**258**
Carrying amount as at 31 December 2015	4,192	852	**5,044**

14 Other assets

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

15 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 2016 breakdown of derivatives below, derivatives totalling €93,298 were not included in hedge accounting.

Breakdown by remaining term to maturity of fair values as at 31 December 2016:

	<3 months	3-12 months	1-5 years	>5 years	2016 Total
Interest rate swaps	104,030	61	619,980	2,218,083	**2,942,154**
Currency swaps	527,465	823,282	2,212,740	1,396,834	**4,960,321**
Caps, floors and swaptions	-	-	62	325,645	**325,707**
Total	631,495	823,343	2,832,782	3,940,562	**8,228,182**

Breakdown by remaining term to maturity of fair values as at 31 December 2015:

	<3 months	3-12 months	1-5 years	>5 years	2015 Total
Interest rate swaps	34,545	29,212	725,547	1,972,653	**2,761,957**
Currency swaps	742,884	622,581	2,443,581	1,398,264	**5,207,310**
Caps, floors and swaptions	-	-	59	234,647	**234,706**
Total	777,429	651,793	3,169,187	3,605,564	**8,203,973**

16 Prepayments and accrued income

This item comprises prepaid amounts for costs related to the next accounting period(s) and the uninvoiced amounts to be received regarding income recognised in the current or previous accounting period(s).

17 Banks

This item consists of liabilities, other than embedded debt securities, due to domestic and foreign banks. The collateral included in this item concerns collateral held under collateral arrangements related to derivative contracts.

This item can be broken down as follows:	**2016**	2015
Loans taken out at banks	**410,713**	9,329
Value adjustment for fair value hedge accounting	**294**	1,877
Liabilities under collateral arrangements	**2,280,601**	2,443,300
	2,691,608	2,454,506

18 Funds entrusted

This item consists of liabilities due to parties other than banks, including Namensschuldverschreibungen and Schuldscheinen. This item can be broken down as follows.

	2016	2015
Funds entrusted	**5,319,370**	4,743,945
Value adjustment for fair value hedge accounting	**740,626**	627,496
	6,059,996	5,371,441

19 Debt securities

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

	2016	2015
Bond loans	**54,926,037**	51,809,169
Short-term debt securities	**10,422,258**	13,530,413
Value adjustment for fair value hedge accounting	**1,923,522**	2,184,280
Fair value of separated derivatives embedded in debt securities	**-39,502**	-45,759
	67,232,315	67,478,103

Of the total amount in long-term debt securities issued, a nominal €5.3 billion (2015: €6.4 billion) carries a variable interest rate. Of the debt securities, a nominal €8.7 billion (2015: €21.9 billion) have a remaining term to maturity of less than twelve months.

The separated derivatives embedded in the debt securities are separated structured components included in the interest terms.

20 Provisions

This item comprises a provision for deferred taxes and a pension provision.

Deferred taxes provision

The movements in deferred tax liabilities are as follows:

	2016	2015
As at 1 January	**14,544**	69,421
Release of deferred tax liability arising when the bank first became liable for tax	**1,486**	1,916
Change as a result of tax adjustments for previous years	**-62,955**	-
Change as a result of temporary differences in the financial year recognised in profit or loss	**175**	154
Results from 'basisrentelening' loans deferred for tax purposes	**-786**	-786
Results from maturity extensions deferred for tax purposes	**4,007**	6,794
As at 31 December	**19,426**	14,544

In 2015, the unrealised results relating to the restructuring of the derivatives portfolio in 2013 and 2014 were settled in consultation with the tax authorities. The change resulting from temporary differences in the financial year recognised in profit or loss relates predominantly to the difference between measurement of the financial instruments for tax purposes and that for financial reporting purposes. It also includes the different tax treatment of pension costs.

Pension provision

The movements in the pension provision are as follows:

	2016	2015
Current service costs	**1,165**	1,102
Past service cost	**-**	0
Interest cost	**763**	694
Expected return on plan assets	**-556**	-507
Administrative and other costs	**4**	56
Employee benefits expenses	**1,376**	1,345
Defined benefit obligation	**37,335**	32,321
Fair value of plan assets	**-26,473**	-23,318
Employee benefits provision	**10,862**	9,003
Opening balance defined benefit obligation	**32,321**	33,447
Interest cost	**763**	694
Current service costs	**1,165**	1,102
Benefits paid	**-1,064**	-803
Past service cost	**-**	0
Employee contributions	**35**	18
Actuarial gain (loss) caused by changes (in assumptions)	**4,115**	-2,137
Closing balance defined benefit obligation	**37,335**	32,321
Opening balance fair value of plan assets	**23,318**	24,180
Employer contributions	**1,345**	758
Employee contributions	**35**	18
Benefits paid	**-1,064**	-803
Return including interest income	**2,839**	-835
Fair value of plan assets as at 31 December	**26,473**	23,318

With effect from 2015, the pensionable salary has been maximised for tax purposes at €100,000, the effect of which was recognised in the 2015 financial year.

The projected employer contributions for 2017 to the defined benefit plans amount to €1.7 million at the end of 2016 (2015: €1.4 million).

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

	2016	2015
Discount rate	**1.90%**	2.40%
Expected rate of return on assets	**1.90%**	2.40%
Future salary/pay increases	**1.50%**	1.50%
Future pension increases	**1.50%**	1.50%

Changes in these assumptions may significantly impact the measurement of defined benefit obligations and plan assets.

21 Income tax

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

Income tax payable in 2016 and 2015 can be broken down as follows:

	2016	2015
2015	**-**	28,809
2016	**21,850**	-
Carrying amount as at 31 December	**21,850**	28,809

The amounts payable for the financial year can be broken down as follows:

	2016	2015
Current tax expense	**37,756**	28,809
Advances paid	**-15,906**	0
Total	**21,850**	28,809

22 Other liabilities

This item can be broken down as follows:

	2016	2015
Prepaid interest and redemptions	**51,532**	49,465
Other liabilities	**3,476**	3,942
	55,008	53,407

23 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, which include the OIS curve. In the 2016 breakdown of derivatives below, derivatives totalling €90,882 were not included in hedge accounting.

Breakdown by remaining term to maturity of negative fair values as at 31 December 2016:

as at 31 December 2016	<3 months	3-12 months	1-5 years	>5 years	2016 Total
Interest rate swaps	27,716	74,530	1,154,437	14,424,221	**15,680,904**
Currency swaps	-	90,628	107,463	285,757	**483,848**
Caps, floors and swaptions	-	-	62	317,447	**317,509**
Total	27,716	165,158	1,261,962	15,027,425	**16,482,261**

Breakdown by remaining term to maturity of negative fair values as at 31 December 2015:

as at 31 December 2015	<3 months	3-12 months	1-5 years	>5 years	2015 Total
Interest rate swaps	23,094	68,817	1,208,438	12,310,613	**13,610,962**
Currency swaps	59,408	34,426	120,358	250,153	**464,345**
Caps, floors and swaptions	-	-	59	226,977	**227,036**
Total	82,502	103,243	1,328,855	12,787,743	**14,302,343**

24 Accruals and deferred income

This item comprises advance receipts for income attributable to the next accounting period(s) and uninvoiced amounts payable in relation to expenses attributable to the past accounting period(s).

25 Subordinated debt

In view of the leverage ratio requirements due to be implemented by the regulatory authority, the bank began raising hybrid capital (in the form of subordinated loans) in 2015. The initial tranche of €200 million was issued in September 2015. The loans are intended to boost NWB Bank's Tier 1 capital in order to meet the leverage ratio requirement. The second tranche of €120.5 million was issued in 2016.

The loans were issued by Dutch public sector parties. The loans are subordinated to receivables from creditors with a higher order of priority than ordinary shares. The loans are perpetual and do not have a fixed repayment date. Early redemption is subject to the consent of the regulatory authority on dates agreed in advance or in specific situations. The interest rate is between 2.34% and 4.025% for the first period until the first early redemption date and will be subsequently reviewed provided no early redemptions have been made. Interest payments by the bank are entirely discretionary. If the Tier 1 core capital ratio declines below 5.125%, the nominal principal amount of this and all similar type loans will be reduced by the amount required to take the Tier 1 core capital ratio above the 5.125% level.

The movements in subordinated debt are set out below:

	2016	2015
As at 1 January	**202,067**	0
Subordinated debt issued	**120,500**	200,000
Change in accrued interest	**3,374**	2,067
As at 31 January	**325,941**	202,067

26 Paid-up and called-up share capital

This item consists of:

A shares

These shares have a nominal value of €115, of which 100% was required to be paid up.
Each A share carries one vote at a shareholders meeting.

B shares

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

Breakdown at year-end 2016:	Issued	Paid up
A shares		
As at 31 December 2016 (50,478 shares)	5,805	5,805
B shares		
As at 31 December 2016 (8,511 shares)	3,915	
Of which unpaid: (74% of 8,510 shares)	-2,896	
		1,019
Total paid up as at 31 December 2016		**6,824**
Total paid up as at 31 December 2015		**6,824**

27 Revaluation reserves

The movements in the revaluation reserves in 2016 and 2015 were as follows:

	Interest-bearing securities revaluation reserve	Other revaluation reserves	Total
As at 1 January 2015	40	267	**307**
Changes in the unrealised value of interest-bearing securities	225	-	**225**
Changes in the value of shares	-	-7	**-7**
As at 31 December 2015	265	260	**525**
Changes in the unrealised value of interest-bearing securities	1,481	-	**1,481**
Changes in the value of tangible fixed assets	-	971	**971**
As at 31 December 2016	1,746	1,231	**2,977**

28 Other reserves

The movements in the other reserves were as follows:

As at 1 January 2015	1,246,913
Appropriation of 2014 profit	48,997
Distribution for 2014	-
Changes in value as part of the pension provision	638
As at 31 December 2015	1,296,548
Appropriation of 2015 profit	94,706
Distribution for 2015	-
Changes in value as part of the pension provision	-1,372
As at 31 December 2016	1,389,882

29 Unappropriated profit for the year

The balance sheet is presented before profit distribution. The proposed profit distribution is as follows:

(in thousands of euros)		2016		2015
Profit for the year		**107,352**		94,706
The proposed profit appropriation is as follows:				
Cash dividends on A shares	0%	**-**	0%	-
Cash dividends on B shares	0%	**-**	0%	-
		-		-
Added to the reserves on the approval of the Supervisory Board		**107,352**		94,706
		107,352		94,706

30 Irrevocable commitments

These commitments relate to:

	2016	2015
Loans granted but not yet paid	**1,026,669**	705,681
Collateral commitments	**445,460**	15,870
Unused current account overdraft facilities	**867,975**	784,784
Unused financing facilities	**1,522,835**	1,009,823
Guarantees issued	**2,272**	1,926
	3,865,211	2,518,084

The collateral commitments and the unused current account overdraft facilities have a short maturity (less than one year). The other items have a long maturity (more than one year). The conditions applicable to the commitments do not differ from those of the other financial instruments offered by the bank.

31 Contingent liabilities

The item contingent liabilities not included in the balance sheet consists of commitments which could arise on guarantees issued (Standby Letters of Credit) in connection with the cross-border financing of water authorities and bank guarantees issued to clients amounting to €60 million (2015: €68 million).

32 Fair value of financial instruments

General

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

When determining the fair value of financial instruments, reference is made to market prices to the extent the financial instruments are traded in an active market. Such market prices are unavailable for most financial instruments, however. In such cases, the fair value is determined using measurement models. The models use various assumptions relating to the discount rate and the timing and the size of the projected future cash flows. When calculating the fair value of options, generally accepted option pricing models are used.

The bank establishes on a regular basis that the application of the measurement models leads to reliable fair values that fit the risk profile of the assets and liabilities. Ongoing changes in market conditions require the bank to adjust, on a regular basis, the measurement parameters that serve as input for the measurement models.

Loans and receivables, and debt securities

A measurement model is used to determine the fair value of loans and receivables, and debt securities. This model is also used as a basis for internal risk reports.

The principle underlying the model is a going concern approach pursuant to which the bank i) generally grants loans that it holds until they mature and ii) funds the relatively long-term loans with shorter-term loans on average.

The measurement curve is based on the average cost of funding, which is the swap interest rate plus a spread. The spread is effectively a measure of the additional funding charges the bank pays on account of liquidity and credit risks. Those additional charges are determined based on the funding outstanding as at the reporting date. The spread resulting from this calculation method is used across all relevant maturities (continuous curve). The assumption is that the spreads applying to the bank are equally representative of the non-market-observable spreads applying to the bank's borrowers.

Interest-bearing securities

Other listed interest-bearing securities are carried at market prices. The fair values of the other interest-bearing securities are determined using the model that is also used for loans and receivables.

Derivatives

Derivatives are measured by applying generally accepted valuation models, based on the most appropriate valuation curves, which include the OIS curve. A credit valuation adjustment and a debt valuation adjustment are also included the measurement.

The curves used reflect the price level at which the bank closes swaps. Credit risks associated with the derivatives transactions entered into are largely mitigated by exchanging collateral.

Overview of fair values of financial instruments

The following table sets out the estimated fair value of the financial assets and liabilities and other financial instruments not disclosed on the face of the balance sheet. For comparative purposes, accrued interest is allocated to the carrying amounts. A number of balance sheet items are not included in the table as they do not meet the definition of a financial asset or liability.

	Carrying amount 31-12-2016	Fair value 31-12-2016	Carrying amount 31-12-2015	Fair value 31-12-2015
Assets				
Cash, cash equivalents and depositsat the Central Bank	**7,246,425**	**7,246,425**	6,766,469	6,766,469
Banks	**10,508,235**	**10,508,235**	8,907,685	8,907,685
Loans and receivables	**64,496,020**	**66,511,863**	63,575,761	66,206,119
Interest-bearing securities	**3,924,509**	**3,964,360**	3,851,164	3,882,749
Derivative assets	**8,228,183**	**8,228,183**	8,203,973	8,203,973
Liabilities				
Banks	**2,691,608**	**2,685,798**	2,454,506	2,553,754
Funds entrusted	**6,059,996**	**6,044,713**	5,371,441	4,965,247
Debt securities	**67,232,315**	**67,772,174**	67,478,103	68,119,670
Subordinated debt	**325,941**	**395,319**	202,067	239,648
Derivative liabilities	**16,482,262**	**16,482,262**	14,302,341	14,302,341

Determining fair values of financial instruments

The table below sets out how the fair values of financial instruments carried at fair value in the balance sheet are determined.

as at 31 December 2016 (in millions of euros)	Measurement based on market prices	Measurement based on models using data available in the market data	Measurement based on models using data unavailable in the market data
Assets			
Other listed interest-bearing securities	1,290	-	-
Derivative assets	-	8,228	-
Separated derivatives	-	-3	-
Liabilities			
Derivative assets	-	16,482	-
Separated derivatives	-	-40	-

as at 31 December 2015 (in millions of euros)	Measurement based on market prices	Measurement based on models using data available in the market data	Measurement based on models using data unavailable in the market data
Assets			
Other listed interest-bearing securities	887	-	-
Derivative assets	-	8,204	-
Separated derivatives	-	-3	-
Liabilities			
Derivative assets	-	14,302	-
Separated derivatives	-	-43	-

Other financial instruments listed above under 'fair values of financial instruments' were measured based on models using data in part available in the market.

Financial derivatives

	2016	2015
Notional amounts of interest rate derivatives		
Breakdown according to remaining terms to maturity:		
Up to one year	**6,605,347**	6,659,955
Between one and five years	**24,070,609**	23,757,972
More than five years	**50,053,415**	46,943,480
	80,729,371	77,361,407
Notional amounts of currency derivatives		
Breakdown according to remaining terms to maturity:		
Up to one year	**14,647,133**	18,603,193
Between one and five years	**12,449,604**	13,049,498
More than five years	**8,108,379**	6,863,646
	35,205,116	38,516,337

The notional amounts of the caps and floors total €93 million (2015: €124 million) and those of the swaptions €922 million (2015: €1,005 million). These derivatives are included under the interest rate derivatives in the above table.

33 Risk management

The bank's strategy imposes high requirements on risk management and on the compliance with and organisation and enforcement of effective internal control procedures. NWB Bank adopts an organisation-wide approach to risk management and internal control.

The bank has a Risk Appetite Framework (RAF) in place which sets out the degree and areas of risk NWB Bank is prepared to accept in achieving its strategic objectives. The RAF is approved by the Supervisory Board.

The internal risk management system for each relevant type of risk is described in the remainder of this section.

INTEREST RATE RISK: 'The possible impact on profit and capital of interest rate fluctuations'

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

The spreads payable by the bank when raising long-term funds fluctuate against its benchmark, i.e. the swap interest rates. These spread developments lead to changes in the fair value of assets and liabilities and also have an impact on net interest income (interest received less interest paid).

Prudent policy, supplemented by a management system tailored to that policy, constitutes the basis for the calculation, monitoring and management of the interest rate risks. The Asset & Liability Committee (ALCO) decides on the size of the risks within the parameters set. To manage risks, a gap analysis according to the interest rate period, risk measures such as (spread) DV01 (see below) and earnings at risk, and scenario analyses are used. Outcomes from positions adopted are analysed using profit forecasts, interest margin analysis and performance analysis. This management information is also important for the decision-making process within the ALCO.

Interest rate sensitivity analysis (DV01)

NWB Bank uses DV01 (the dollar value of a basis point) as the key measure of interest rate risk. An absolute measure derived from duration, it indicates the change in price or fair value, expressed in monetary units, caused by a one basis point (0.01%) change in the yield curve. A system of DV01 limits applies to the overall interest rate risk position. These relate to the strategic interest rate risk position, which is based on the NWB Bank's level of return agreed with the shareholders. The strategic position is independent of any vision on interest rate developments.

The interest rate sensitivity of the portfolio to which macro hedging is applied is monitored on the basis of DV01s for various time intervals.

To manage spread risk related to the refinancing of the bank, a spread DV01 measure and concomitant limit apply. They indicate a maturity mismatch between funding and lending. The spread DV01 is quantified on the basis of the interest rate sensitivity of all long-term lending and funding. At year-end 2016, it was within the limit set.

Earnings at Risk

In addition to the DV01 analysis, which provides insight into the interest rate risk for the total term of the portfolio, NWB Bank applies the Earnings at Risk measure for the short term, with the aim of setting limits to the volatility of interest income during the next 365 days. This is a simulation measure, comparing the expected net interest income or expense for the next twelve months under various interest rate scenarios with the outcome of a baseline scenario. At year-end 2016, the outcomes for those scenarios were within the limits set.

Gap analysis

A gap analysis according to the interest rate period is shown below based on the contractual interest review date or redemption date if the latter is earlier.

as at 31 December 2016 (in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
Assets					
Loans and receivables	**84,757**	23,339	4,421	16,456	40,540
Interest-bearing securities	**3,962**	2,049	259	1,316	338
Fixed-interest derivative assets	**60,391**	9,811	9,005	22,408	19,167
Variable interest derivative assets	**-52,113**	-46,724	-5,938	386	163
Total assets	**96,997**	-11,525	7,747	40,566	60,208
Liabilities					
Banks, funds entrusted and debt securities	**77,507**	16,571	9,859	25,590	25,487
Subordinated debt	**396**	1	8	38	350
Fixed-interest derivative liabilities	**49,106**	1,137	1,890	14,276	31,803
Variable interest derivative liabilities	**-33,251**	-28,624	-4,646	-4	22
Total liabilities	**93,758**	-10,915	7,111	39,900	57,662
Total assets less liabilities in 2016	**3,239**	-610	636	666	2,546
Total assets less liabilities in 2015	**2,960**	-1,640	1,241	1,281	2,078

The present value of all instruments is presented on the basis of the swap curve. The derivatives include notional amounts to give a clearer picture of interest rate positions. Accordingly, no direct link can be made to the balance sheet.

Scenario analysis

NWB Bank performs scenario analyses to gain additional insight into the interest rate risk. A common scenario is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -100 basis points (bp) and +100 bp. The effect of this sudden change in the interest rate as at 31 December 2016 is shown in the table below. It shows the consequential changes in fair value which have been subsequently broken down into the effect on the result of the current financial year and the effect on future annual results. The long-term effect merely indicates an opportunity loss. In other words, if NWB Bank had fully hedged its interest rate position, its future financial results would have been €101 million higher (2015: €88 million higher) in the event of a 100 bp rise in interest rates.

(in millions of euros)	Total fair value change	Immediate effect on profit or loss	Long-term effect on future profit or loss
Interest rate shock of +100 bp	-81	20	-101
Interest rate shock of -100 bp	25	-5	30

LIQUIDITY RISK: 'The possible impact on profit and capital of not being able to meet current obligations without incurring unacceptable losses'

NWB Bank has an AAA/Aaa credit rating identical to that of the State of the Netherlands. With this credit rating, under normal circumstances, NWB Bank should always easily be able to cover its current and future liquidity requirements in the market. In the event of market stagnation, NWB Bank has sufficient means, among other things in the form of liquid assets and collateral pledged with DNB, to repay loans and finance new loans at all times. NWB Bank currently has an ample collateral position at DNB. Virtually the entire loans portfolio of NWB Bank is accepted as collateral at DNB. The collateral value of the portion of the portfolio contributed as collateral to DNB was €12.4 billion as at 31 December 2016 (€13.6 billion as at 31 December 2015). However, NWB Bank did not make use of this position. In terms of short-term funding, NWB Bank mainly relies on the commercial paper market. The bank uses an ECP programme capped at €25 billion and a USCP program capped at $10 billion. The bank has the highest short-term ratings (A-1+/P-1) with respect to those programmes. The outstanding commercial paper as at 31 December 2016 totalled €10.4 billion (as at 31 December 2015: €13.5 billion).

The liquidity position is monitored daily. The aim of liquidity management is to ensure that there are sufficient funds available for the bank to meet not only foreseen, but also unforeseen financial commitments. The bank's management is informed daily by means of a liquidity gap analysis, containing differences between the cash flows receivable and payable. The liquidity position is subject to a system of limits. One limit relates to the LCR, a liquidity ratio set out in CRD IV/CRR to which a minimum requirement applies with effect from 1 October 2015. DNB requires Dutch banks to maintain a minimum LCR of 100% as at the effective date. The internal LCR limit is higher than the minimum requirement. Along with the LCR, another liquidity risk requirement will be included in the regulations, the Net Stable Funding Ratio (NSFR). A minimum requirement of 100% is expected to apply with effect from 1 January 2019. NWB Bank meets both minimum requirements as at 31 December 2016. The LCR was 146% at the balance sheet date (2015: 134%) and the NSFR 123% (2015: 117%).

The balance sheet categories according to the remaining contractual term, including all future undiscounted interest cash flows and before proposed profit appropriation, are presented below.

as at 31 December 2016 (in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
Assets					
Cash, cash equivalents and deposits at the Central Bank	**7,246**	7,246	-	-	-
Banks, loans and receivables	**87,431**	1,244	5,670	24,226	56,291
Interest-bearing securities	**3,982**	82	459	3,075	366
Intangible assets	**2**	-	-	-	2
Tangible fixed assets	**6**	-	-	-	6
Derivative assets	**-**	-	-	-	-
Other assets	**14,357**	1,036	1,294	4,425	7,602
Prepayments and accrued income	**2**	2	-	-	-
Total as at 31 December 2016	**113,026**	9,610	7,423	31,726	64,267
Total as at 31 December 2015	**114,859**	9,770	7,856	32,019	65,214
Liabilities					
Banks, funds entrusted and debt securities	**86,835**	10,225	10,276	28,329	38,005
Subordinated debt	**410**	1	8	38	363
Other liabilities	**55**	-	55	-	-
Derivative liabilities	**22,684**	341	993	4,057	17,293
Accruals and deferred income	**8**	-	8	-	-
Provisions	**11**	-	-	-	11
Deferred income tax provision	**19**	-	-	-	19
Income tax	**22**	-	22	-	-
Equity	**1,507**	-	-	-	1,507
Total as at 31 December 2016	**111,551**	10,567	11,362	32,424	57,198
Total as at 31 December 2015	**113,051**	16,045	8,426	33,980	54,600

CREDIT RISK: 'The possible impact on profit and capital of counterparties not meeting their obligations'

The bank's policy is geared towards an extremely high-quality loans portfolio. NWB Bank principally lends to governments and government-backed institutions. It also provides loans to water supply companies and finances PPP projects with the government as the contracting authority. Other new client groups in the public sector will be added to the loans portfolio as well, such as university medical centres and regional network managers. Furthermore, to a limited extent, the bank purchases bonds issued by governments in Western European countries and international organisations, and covered bonds securitised by Dutch mortgage loans, applying the same quality standards as for domestic lending. Lastly, the bank enters into agreements with financial institutions for money market transactions and currency and interest rate swaps, which result in counterparty risk.

In financing the Dutch public authorities, no limits are applied by the bank, whereby these positions are also exempted from the Large Positions rules set out in the CRR. The other loans are included in the bank's credit assessment system pursuant to its credit risk management policy. If a credit limit is set for a borrower, it is adjusted annually, at a minimum, in line with the latest developments. Decision-making on lending subject to solvency requirements takes place in the Credit Committee based on a credit proposal from the public finance department and an independent risk assessment from the risk management department.

Given the public sector nature of the majority of its clients who, moreover, are exempt from solvency requirements, the credit risk of the loans portfolio is limited, which is also reflected in the robust capital ratios. The gross balance sheet value (including irrevocable commitments and contingent liabilities), without taking risk mitigation measures into account, totalled €98.3 billion at the end of 2016 (€93.9 billion at the end of 2015).

The total credit risk (including irrevocable commitments) expressed in risk-weighted assets based on the standardised approach as set out in the CRR, is as follows at the reporting date:

2016		Europe			North-America	Total	RWA
		NL	EU	Non-EU			
Central governments	0%-50%	7,483	46	-	-	**7,528**	23
Regional governments	0%	17,245	26	-	-	**17,271**	-
Institutions with delegated government duties	20%-100%	51,430	-	-	-	**51,430**	674
Development banks	0%	-	63	-	-	**63**	-
International organisations	0%	-	315	-	-	**315**	-
Banking counterparties *	2%-50%	6,298	6,492	325	1,106	**14,221**	560
RMBS (NHG) notes *	20%-100%	2,145	-	-	-	**2,145**	522
Covered bonds	10%	328	-	-	-	**328**	33
Other	0%-100%	9	-	-	-	**9**	9
Total		84,938	6,942	325	1,106	**93,311**	1,821

2015		Europe			North-America	Total	RWA
		NL	EU	Non-EU			
Central governments	0%-50%	7,493	65	-	-	**7,558**	-
Regional governments	0%	16,725	26	-	-	**16,752**	-
Institutions with delegated government duties	20%-100%	49,915	50	-	-	**49,965**	489
Development banks	0%	-	66	-	-	**66**	-
International organisations	0%	-	353	-	-	**353**	-
Banking counterparties *	2%-50%	3,894	6,696	290	1,479	**12,358**	480
RMBS (NHG) notes *	20%-100%	2,189	-	-	-	**2,189**	441
Covered bonds	10%	50	-	-	-	**50**	5
Other	0%-100%	7	-	-	-	**7**	7
Total		80,273	7,256	290	1,479	**89,298**	1,421

* Based on ECAI rating

Most of NWB Bank's lending comes under the category of a 0% weighting, which means that the credit risk is considered to be very limited. The counterparty risks and potential money market lending by banking counterparties come under the 20% and 50% weighting categories.

The portfolio of residential mortgage-backed securities (RMBS) with a government-backed National Mortgage Guarantee (NHG) notes comes under the 20% weighting category if they are senior A notes. A smaller portion (lower S notes) comes under the 100% weighting category. Lastly, loans provided to Dutch water supply companies (government-controlled public limited liability companies) and PPP financing are included in the 100% weighting category.

The table below provides an insight into the breakdown of loans granted (paid out) by the bank:

(in millions of euros)	2016 Nominal value	Balance sheet value	2016 Nominal value	Balance sheet value
Water authorities	**5,953**	**7,171**	5,494	6,485
Municipal authorities	**6,268**	**7,389**	6,667	7,728
Other public authorities	**291**	**393**	314	406
Social housing	**31,005**	**43,367**	31,632	42,198
Healthcare institutions	**3,277**	**4,107**	3,577	4,351
Other borrowers under Joint schemes	**634**	**711**	641	711
Government-controlled public	**219**	**245**	218	244
Limited liability companies	**350**	**375**	353	383
Public-Private Partnerships	**109**	**107**	78	78
Credit institutions	**100**	**100**	42	42
Other	**54**	**57**	53	59
Total	**48,260**	**64,022**	49,069	62,685

NWB Bank's borrowers as listed above are mainly public authorities and entities in the social housing and healthcare sectors to which funds are lent under the guarantee of the public authorities. The bank has never suffered an uncollectible debt. Owing to the adequate guarantees obtained and the very limited credit risk, no losses on the loans granted are expected. Therefore, no provision for uncollectible receivables was formed, nor were any loans written down on account of credit risk. Both during the year and at the balance sheet date, arrears were low in monetary terms (non-material), of a technical nature and of a very short duration.

In 2016, NWB Bank held six notes of RMBS programmes from five Dutch originators in its portfolio. The RMBS notes are securitised by Dutch mortgage loans backed by the government under the National Mortgage Guarantee scheme (NHG). By purchasing these bonds, NWB Bank contributes to the financing of government-guaranteed private home loans. NWB Bank only actively uses securitisation in its role as an investor, monitors the associated credit, market and liquidity risks during the period to maturity and firmly intends to hold the RMBS (NHG) notes until the expected expiry date. Credit risk is expressed in risk-weighted assets based on the Standardised Approach to Securitisations as set out in Article 251 of the CRR, in which the ratings issued by S&P, Moody's and/or Fitch are used to indicate credit risk. The table below shows the data as at 31 December 2016.

Rating	Nominal amount (million)	Expected expiry date	Class
AAA	1,839	2021	A
A+	303	2018	A
BBB+	4	2018	S

NWB Bank uses derivatives to manage the interest rate and currency risks. To limit the credit risks associated with these derivatives as far as possible, in principle, NWB Bank only enters into transactions with counterparties with a single-A rating at a minimum, and limits are set to minimise the total exposure from derivatives. The fair values of these derivatives are hedged by collateral agreements (CSAs) using mostly zero thresholds and by exchanging collateral on a daily basis, in cash. The bank's policy is to conclude agreements with counterparties within the ISDA framework consisting of at least agreements in CSAs and Schedules and to ensure that netting agreements apply. ISDA agreements concluded with the majority of counterparties in recent years were amended to bring them more into line with the market standard for exchanging collateral (such as zero thresholds and daily valuation). Portfolio management, monitoring and collateral management have been stepped up over the past years with respect to the individual derivatives portfolios for each counterparty, as well as for the total derivatives portfolio. This involves monitoring sensitivities in counterparty-specific portfolios and the option of novating a portfolio, or part thereof, to a central counterparty under central clearing in due course. From May 2016, the bank transitioned to the central clearing of interest rate derivatives, which has further reduced counterparty risk. In addition, concentrations in the derivatives portfolio are assessed and adjusted in terms of interest-rate sensitivities, credit ratings and other early warning signals for each counterparty. The total fair value exposure from derivatives to financial counterparties at year-end 2016 was €1,937 million, of which €1,791 million was covered by collateral pledged to the bank (2015: €2,472 million and €2,294 million respectively). The total fair value exposure from derivatives from financial counterparties at year-end 2016 was €10,515 million, of which €10,309 million was covered by collateral provided by the bank (2015: €8,805 million and €8,795 million respectively).

The tables below show the net fair value of the derivatives, including collateral received and provided:

(in millions of euros)

Assets	Positive fair value derivatives	Netting negative fair value derivatives	Cash collateral recieved	Netto position
Banking counterparties	7,902	-5,967	-1,791	144
Non-banking counterparties	326	-	-	326
Total 2016	8,228	-5,967	-1,791	470
Total 2015	8,204	-5,497	-2,294	413

Liabilities	Negative fair value derivatives	Netting positive fair value derivatives	Cash collateral provided	Netto position
Banking counterparties	-16,483	5,967	10,309	-207
Non-banking counterparties	0	-	-	0
Total 2016	-16,483	5,967	10,309	-207
Total 2015	-14,302	5,497	8,795	-10

The derivatives entered into with non-banking counterparties are embedded derivatives in the form of agreements which are included in the loan contracts. No ISDA or CSA agreements have been made, which means that no netting takes places for these parties.

Settlement risk refers to the risk that, in settling a transaction, a counterparty fails to meet its obligations while the bank meets its own. Instances in which this may happen include when the notional amount of a currency swap is ultimately exchanged, which is used to repay the associated funding in foreign currency. The currency risk arising from funding in foreign currency is hedged on a one-on-one basis using currency swaps. The bank monitors settlement risks, which arise chiefly upon payment and receipt of foreign currency during currency swaps.

CURRENCY RISK: 'The possible impact on profit and capital of changes in exchange rates'

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

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

	2016				2015			
CCY	Asset	Liability	Derivatives	Total	Asset	Liability	Derivatives	Total
AUD		-3,504	3,504	-		-2,705	2,705	-
CAD		-1,387	1,387	-		-493	493	-
CHF		-3,400	3,400	-		-3,840	3,840	-
GBP		-1,723	1,723	-		-4,021	4,021	-
HKD		-100	100	-		-100	100	-
JPY		-186,800	-186,800	-		-189,899	189,899	-
NOK		-3,500	3,500	-		-4,125	4,125	-
NZD		-100	100	-		-179	179	-
SEK		-1,100	1,100	-		-1,100	1,100	-
USD	104	-29,427	29,323	-	126	-31,313	31,186	-
ZAR		-116	116	-		-116	116	-

NON-FINANCIAL RISKS:

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

The non-financial risks at NWB Bank are subdivided into two categories, i.e. strategic and operational risks.

STRATEGIC RISKS: 'The possible impact on profit and capital of the risk that the bank's strategy no longer contributes to the profitability and continuity of the bank'

An important principle in managing strategic risk is the retention of the bank's high-quality risk profile as reflected in its credit ratings. In order to be able to optimally serve its clients, it is essential that the bank's credit ratings remain in line with those of the Dutch government. The bank's ratings largely depend on the public sector profile of its shareholders and clients, combined with its strong solvency position. External factors that could potentially affect this are closely monitored. Where necessary, the Managing Board adjusts the bank's strategy in a timely manner.

As a promotional bank for and established by the Dutch public sector, the bank is sensitive to changes in government policy concerning public sector funding in the Netherlands. NWB Bank maintains a continuous and constructive dialogue with its stakeholders on this topic. Another important focus area for the Managing Board in terms of strategic risk is the impact of the constantly changing laws and regulations with which NWB Bank as a financial institution must comply.

Reputational risk, the risk that the bank's reputation will be tarnished, is another key aspect of strategic risk. Reputational risk could impair the conditions enabling the bank to meet its objectives, due to the bank no longer meeting the expectations of its clients, the supervisory authorities, rating agencies, investors and other stakeholders.

The bank's Managing Board is responsible for managing the above strategic risks.

OPERATIONAL RISK:

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

Given that NWB Bank seeks to be a stable and reliable financier of the Dutch public sector, it has a low tolerance for operational risks. NWB Bank has therefore designed its internal organisation, processes, systems and security measures in such a manner that it expects operational incidents and the associated losses to rarely occur in practice.

Internal organisation

In order to manage operational risks, NWB Bank applies the three lines of defence principle in its organisational structure. The department heads of the first line of defence (treasury, public finance, back office, ICT, legal, finance & control) carry primary responsibility for risk management in their daily processes. They are responsible for identifying, evaluating, managing and reporting non-financial risks and operational incidents.

The second line of defence comprises the operational risk officer, the HR manager, the security manager and the compliance officer, who jointly form the operational risk management (ORM) team. The ORM team coordinates the activities of the second line of defence. The team monitors and analyses all matters relating to operational risk management. The team also prepares and discusses the ORM report with the Managing Board on a quarterly basis.

The internal audit department (IAD) forms the third line of defence and has an independent role within the bank. The IAD tests the management of risks associated with the bank's activities. In addition, the IAD advises on the structure and risk management of the bank.

Procedures

The bank's operational risk management processes are documented. The processes, the risks and the associated key controls are set out in a risk & control framework. All processes, risks and controls are assessed and adjusted on an annual basis. The IAD assesses all key processes each year and the non-key processes every two years to determine the level of compliance with the procedures and whether they are still effective.

New products or services

The Product Approval and Review Process (PARP) refers to the procedures the bank follows in deciding whether it will offer or distribute a certain product, either at its own risk and expense or for the benefit of its clients, or whether it will enter a new market. This process involves a widely-scoped review in terms of transparency and risk management. No new product is marketed without careful consideration of the risks by the relevant departments at the bank and meticulous checks against other relevant aspects. The Managing Board is responsible for the effectiveness of the product approval process. Based on its annual risk assessment, the IAD audits the design, existence and effectiveness of the process and reports its findings to the Managing Board and the Audit and Risk Committees.

Operational incident registration

Any operational incidents are reported to the operational risk officer. These incidents are reported to the Managing Board and the management team. Where appropriate, the IAD will subsequently investigate the causes. The operational risk officer proposes measures, where necessary, to prevent similar incidents from occurring in the future and monitors the follow-up on these measures. Integrity-related incidents are reported to the compliance officer, who reports these to the Managing Board and monitors the follow-up accordingly.

ICT, continuity management and information security

To prevent disruptions to the information systems, NWB Bank makes ongoing investments to improve its systems. Key words include security, integrity, manageability and continuity. A transparent infrastructure and ICT organisation and optimum security of ICT components are in place to minimise the impact of any operational disruptions at NWB Bank. For this purpose, adequate service and maintenance contracts have been concluded for all relevant hardware and software, ICT employees receive ongoing training through classes and seminars and contracts have been entered into with external parties for back-up, recovery and contingency facilities. In the event of a disaster, NWB Bank has access to an external location where it can continue all its core activities. The bank's information security policy is based on ISO-27002 (NEN), the internationally recognised information security standard.

Information management

NWB Bank has a reliable, fully integrated management information system (MIS). The data quality of the MIS is monitored, validated and reconciled with the financial accounting records on a daily basis. In order to minimise the operational risks, all the internal and external reports are fully automated. Adjustments in the system landscape and information systems are approved by the Change Advisory Board and implemented through a controlled change process.

Outsourcing

NWB Bank has outsourced its customer funds transfers and the related ICT support operations. This means that certain services are performed outside the core of the business. Agreements have therefore been made with the service provider on control measures for funds transfers.

Integrity and compliance

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

The Supervisory and Managing Board members as well as staff have taken the banker's oath (which includes the relevant code of conduct and disciplinary rules) pursuant to the Dutch Oath or Promise (Financial Sector) Regulation or the Dutch Banking Code, which took effect on 1 January 2015. NWB Bank updated its Code of Conduct on the basis of the new Dutch Banking Code. The NWB Bank Code of Conduct forms part of the employment contracts, and it was posted on both the Intranet and the bank's website.

NWB Bank has assigned some of the compliance-based duties to the legal & compliance department and the supervision of compliance with the Insider Regulation to an external party. The external supervisor reports to the Managing Board and the Supervisory Board, while the internal compliance officer reports directly to the Managing Board. These reporting lines confirm the value that the bank attaches to the internal supervision and the work performed by both compliance officers. The supervision-based rules and code of conduct are an important element of the compliance role.

The rapid succession of new and complex laws and regulations puts increasing pressure on the management of compliance risks. The bank has set up a regulatory team in the light of the need to closely monitor developments in laws and regulations.

Legal risk

Like any other bank, NWB Bank is exposed to legal risk. NWB Bank operates on the principle of providing proper and sound financial services. By using standard contracts as far as possible, NWB Bank endeavours to reduce the legal risks for both itself and its clients. If needed, external advisers are consulted on legal issues and to review documents relating to these transactions.

MINIMUM CAPITAL REQUIREMENTS

The standardised method for determining the capital requirement stipulates how much capital a bank must reserve for credit risk purposes. This method uses external ratings linked to certain risk weightings. NWB Bank uses the credit ratings of Moody's, S&P and/or Fitch[1] for this purpose. The capital requirement pursuant to the CVA is additional to the capital requirement for counterparty default risk. This capital requirement is calculated using a standard formula based on exposure, rating and average terms of derivatives positions entered into with counterparties, among other things. The market risk concerns risks in the trading portfolio and currency and commodity risks. NWB Bank does not keep a trading portfolio and has no commodity positions. Due to its stringent policy on currency risk, on balance there are no outstanding currency positions, and therefore the capital that is to be reserved to cover market risk is nil. When calculating qualifying capital for operational risk, NWB Bank uses the basic indicator approach. Under this approach, 15% of the relevant indicator is taken as a benchmark for the operational risk. The relevant indicator is the three-year average of the total of the annual net interest income and the annual net non-interest income at the end of the financial year. The Large Positions rules stipulate how much capital a bank must reserve for concentration risk. NWB Bank's large positions are mainly connected to the derivatives portfolio.
The risks arising from these positions are limited as far as possible by concluding CSAs and applying netting to derivatives contracts.

1) see Article 1 Joint Consultation Paper (EBA, 06-03-2015) Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps under Article 109 (a) of Directive 2009/138/EC.

Calculation of the Tier 1 capital ratio as at the reporting date:

(in millions of euros)	2016	2015
Equity excluding profit for the current financial year	**1,400**	1,304
Intangible fixed assets	**-2**	-3
Prudential filters	**-2**	-1
CET1 capital	**1,396**	1,300
Additional Tier 1 capital	**320**	200
Tier 1 capital (A)	**1,716**	1,500
Weighted credit risk (SA)	**1,821**	1,421
Capital requirement pursuant to CVA (SA)	**938**	411
Weighted operational risk (BIA)	**220**	166
Risk-weighted assets (B)	**2,979**	1,998
Tier 1 ratio (A/B)	**58%**	75%

At the end of 2016, visible equity totalled €1,400 million (excluding profit for the current financial year) against €1,304 million at year-end 2015 (excluding profit for the current financial year). CET1 capital including Additional Tier 1 capital amounted to €1,716 million at year-end 2016 (excluding profit for the current financial year) against €1,500 million at year-end 2015 (excluding profit for the current financial year). The bank's total risk-weighted assets rose from €1,998 million at the end of 2015 to €2,979 million at the end of 2016. This increase is largely attributable to a different method of calculating the capital requirement for the Credit Value Adjustment (CVA).

See also the section entitled 'NWB Bank in 2016' in the Report of the Managing Board.

36 Information on related parties

The shareholders and the members of the Managing and Supervisory Boards qualify as related parties. With respect to the obligation to report information on related parties, there are no particular circumstances at NWB Bank that warrant disclosure.

For more information on the remuneration of, and loans to, members of the Supervisory Board and the Managing Board, please refer to Note 4.

As at 31 December 2016, an amount of €6,244 million in loans had been granted to shareholders on market terms (2015: €5,807 million).

37 Events after the balance sheet date

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

38 Members of the Managing Board and Supervisory Board

Managing Board

Menno Snel
Lidwin van Velden
Frenk van der Vliet

Supervisory Board

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

The Hague, 16 March 2017

Independent auditor's report

To: the shareholders and supervisory board of Nederlandse Waterschapsbank N.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Nederlandse Waterschapsbank N.V. (hereinafter referred to as 'NWB Bank'), based in The Hague.

In our opinion the accompanying financial statements give a true and fair view of the financial position of NWB Bank as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The balance sheet as at 31 December 2016
- The statement of income for 2016
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€ 15 million
Benchmark applied	1% of equity
Rational	Based on our professional judgement we consider equity-based measures as the most appropriate basis to determine materiality as it provides a stable basis for determining materiality and is one of the key performance measures for the users of the financial statements.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 700.000 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit approach
Hedge accounting	
NWB Bank hedges interest rate risks and currency risks related to financial assets and liabilities through the use of financial instruments. The application of hedge accounting enables the synchronization of the reported results for the hedging instrument and the hedged position, insofar the hedge is effective. NWB Bank uses derivatives as hedging instruments and records these on the balance sheet at fair value. Both the fair value adjustments of the hedged position related to the hedged risk and the fair value adjustments of the derivatives are recorded in the statement of income as result from financial transactions. NWB Bank applies two types of fair value hedge accounting, micro-and macro hedging. NWB Bank has developed specific models to calculate hedge effectiveness. The hedge accounting models used by NWB Bank to determine the effectiveness of the hedges is significant for our audit, since the process is complex, highly subjective and based on assumptions.	We assessed and tested the design and operating effectiveness of the controls over hedge accounting. Furthermore, we have evaluated the adequacy of the hedge documentation, supported by our hedge accounting experts and audited the significant parameters used for the fair valuation of derivatives and hedged items. Moreover, we have audited the hedge effectiveness calculations and assessed the completeness of the disclosures relating to hedge accounting, evaluated Dutch GAAP thereof and our valuation experts re-performed the fair value calculations for selected derivative curves and hedged items.
Fair value measurement of financial instruments	
Fair value measurement of financial instruments and associated valuation adjustments can be a subjective area insofar model based valuations are applied due to weak liquidity and limited price availability. Most investments of NWB Bank qualify as so called 'level 1' financial instruments and have quoted prices in an active (listed) market. The main focus is on the level 2 financial instruments (derivatives) as for the fair value determination models are used with market observable data. The valuation was significant for our audit because the estimation process is complex, subjective and based on assumptions.	As part of our audit we have requested our valuation experts to re-perform the fair value calculation for a representative sample of derivative contracts. Also, we have evaluated the fair value hierarchy and migrations within the hierarchy during the year, we have audited compliance and consistency with Dutch GAAP on disclosure of financial instruments and evaluated developments in credit spreads for the fair value determination of the portfolio.
Existence and credit quality loans and advances	
Credit risk and the related impairments are limited for NWB Bank as the majority of the portfolio consists of government guaranteed exposures. For the remainder of the portfolio, NWB Bank evaluated whether there were any objective indicators of impairment. As NWB Bank is expanding their activity in non-guaranteed exposure identified this as a key audit matter.	We have assessed the internal control measures for determination of impairment as well as the credit risk evaluations performed by NWB Bank and independently re-assessed indicators of impairment for a number of risk-based selected files. Furthermore, we reconciled the guarantees as confirmed by WSW and WFZ with NWB's loan portfolio. In addition we sent out positive as well as negative confirmations to the clients of NWB Bank to verify the existence of the portfolio.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The report of the managing board
- The report of the supervisory board to the shareholders
- Corporate governance
- Corporate Social Responsibility; and
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the report of the managing board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the general meeting of shareholders as auditor of NWB Bank on 23 April 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

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

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included e.g.,:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 16 March 2017

Ernst & Young Accountants LLP

w.g. drs W.J. Smit RA

Articles of Association provisions governing profit appropriation

With effect from the 2005 financial year, the appropriation of profit is governed by Article 21 of the Articles of Association, which reads as follows

Article 21

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

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

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

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

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

Proposed profit appropriation

(in thousands of euros)		2016		2015
Profit for the year		**107,352**		94,706
The proposed profit appropriation is as follows:				
Cash dividends on shares A	0%	**-**	0%	-
Cash dividends on shares B	0%	**-**	0%	-
		-		-
Added to the reserves on the approval of the Supervisory Board		**107,352**		94,706
		107,352		94,706

List of shareholders as at 1 January 2017

	Number of A shares à € 115	Number of B shares à € 460
Aa en Maas Water authority	627	301
Amstel, Gooi en Vecht Water authority	281	60
Brabantse Delta Water authority	2,016	483
Delfland Water authority	755	60
De Dommel Water authority	533	360
Drents Overijsselse Delta Water authority		232
Fryslân Water authority	3,309	100
Hollandse Delta Water authority	1,893	143
Hollands Noorderkwartier Water authority	4,399	204
Hunze en Aa's Water authority	1,915	175
Limburg Water authority	2,401	299
Noorderzijlvest Water authority	1,107	170
Province of Drenthe	15	25
Province of Friesland	24	25
Province of Gelderland	44	50
Province of Limburg	11	20
Province of Noord Brabant	33	40
Province of Noord Holland	43	60
Province of Utrecht	43	60
Province of Zeeland	15	20
Province of Zuid Holland	33	40
Rivierenland Water authority	3,968	437
Rijn en IJssel Water authority	5,666	345
Rijnland Water authority	4,858	289
Scheldestromen Water authority	4,380	166
Schieland en de Krimpenerwaard Water authority	610	430
State of the Netherlands	1,208	3,333
De Stichtse Rijnlanden Water authority	224	47
Vallei en Veluwe Water authority	631	88
Vechtstromen Water authority	7,158	423
Zuiderzeeland Water authority	42	26
	50,478	**8,511**

Summary of compliance with the principles of the Dutch Banking Code

The Corporate Governance chapter in the Annual Report addresses a number of aspects of the Dutch Banking Code.

Principle	Compliance
Conducting business operations with restraint and integrity	
Formulate a mission, a strategy and objectives.	Managing Board Charter,[1] Articles 1.1 and 1.3 Supervisory Board Charter,[2] Article 1.1 Supervisory Board Profile,[3] Article 1.5
Position the bank.	Managing Board Charter, Article 1.3 Supervisory Board Charter, Article 1.1
Set up a governance structure and ensure compliance with the governance principles.	Managing Board Charter, Article 1.2 Supervisory Board Charter, Article 1.2
The Managing Board and the Supervisory Board must set an example and this will be evaluated accordingly.	Managing Board Charter, Article 4.1 Supervisory Board Charter, Article 2.1
Develop, communicate and enforce standards on integrity, morals and leadership in the bank.	Managing Board Charter, Article 4.2 Supervisory Board Charter, Article 2.2
The Managing Board and the Supervisory Board will ensure there are proper checks and balances and will safeguard a solid IT infrastructure.	Managing Board Charter, Articles 1.6, 1.7 and 5.5 Supervisory Board Charter, Article 1.7 Supervisory Board Profile, Article 2.4
Promote responsible behaviour and a healthy culture in the interests of the bank's clients and other stakeholders, under the supervision of the Supervisory Board.	Managing Board Charter, Article 4.3 Supervisory Board Charter, Article 2.3
The principles in the Social Charter of the Dutch Banking Association apply to all members of the Dutch Banking Association. These principles must be embedded in the bank's organisation and the bank will use them as guidance in its contact with stakeholders. This will provide an insight into the way in which the bank deals with the principles in the Charter.	Managing Board Charter, Introduction Supervisory Board Charter, Introduction Code of Conduct, Article 1[4]
Compliance with the formal rules and self-regulation by all employees and responsibility for ensuring compliance.	Managing Board Charter, Article 4.4 Supervisory Board Charter, Article 2.4

1) Managing Board Charter of NWB Bank, September 2016.
2) Supervisory Board Charter of NWB Bank, October 2016.
3) profile for the appointment of members of the Supervisory Board of NWB Bank, February 2015.
4) NWB Bank Code of Conduct, September 2015.

Supervisory Board	
Composition.	Supervisory Board Charter, Article 3.7 Supervisory Board Profile, Articles 2 and 3.1
Establishment of an audit and risk committee.	Supervisory Board Charter, Article 6.1
Sufficient time, effort, commitment, critical and independent.	Supervisory Board Charter, Article 1.11 Supervisory Board Profile, Articles 1.4 and 4
Awareness of the bank's social role and stakeholders' interests.	Supervisory Board Charter, Article 1.1 Supervisory Board Profile, Articles 1.5 and 2.6
The members of the Audit and Risk Committee must have the requisite competencies and experience.	Audit Committee Charter [5], Articles 3.1 and 3.2 Risk Committee Charter [6], Articles 3.1 and 3.2
Availability of a lifelong learning programme.	Supervisory Board Charter, Article 4.2a
Content of lifelong learning programme.	Supervisory Board Charter, Article 4.2a
Participation in lifelong learning programme and evaluation of its effectiveness.	Supervisory Board Charter, Articles 4.2a and 7.5
Evaluation of the functioning of the Supervisory Board under independent supervision.	Supervisory Board Charter, Article 7.6
Appropriate compensation for each Supervisory Board member.	Supervisory Board Charter, Article 13.1

Managing Board	
Composition	Managing Board Charter, Articles 1.3, 5.3 and 5.4
One Managing Director will have the duty of preparing decision-making on risk management.	Managing Board Charter, Articles 5.8 and 5.9
The impact of potential systemic risks on the bank's risk profile.	Managing Board Charter, Article 5.8
The availability and aim of a lifelong learning programme for the Managing Board.	Managing Board Charter, Article 5.5
The content of the lifelong learning programme for the Managing Board.	Managing Board Charter, Article 5.5
Each member of the Managing Board must take part in the lifelong learning programme and must meet the programme requirements.	Managing Board Charter, Article 5.6

Risk policy	
A comprehensive approach to a transparent risk policy, which has both a short and long-term focus. The risk policy also takes reputational risks and non-financial risks into account.	Managing Board Charter, Article 5.8 Supervisory Board Charter, Articles 1.8b, 1.8c, 1.8d, 1.9 and 7.7. Supervisory Board Profile, Articles 1.7d, 2.3a and 2.4
Responsibility for risk policy and ensuring proper risk management.	Managing Board Charter, Article 1.6
Supervisory Board approval of (material changes to) risk appetite proposed by the Managing Board.	Managing Board Charter, Article 2.1 Supervisory Board Charter, Article 7.4
The Supervisory Board will monitor the risk policy pursued by the Managing Board.	Supervisory Board Charter Articles 1.9 and 7.7 Risk Committee Charter [6], Article 1.1

5) Audit Committee Charter of NWB Bank, October 2016.
6) Risk Committee Charter of NWB Bank, October 2016.

Audit	
Systematic audit of risk management by the Managing Board.	Managing Board Charter, Articles 1.6, 1.7 and 1.7f
Presence of an internal audit function and the relevant reporting lines.	The NWB Bank Internal Audit Charter[7] provides that the internal audit department (IAD) is directly accountable to the Chairman of the Managing Board. It is not subject to line management and is unrelated to the internal controls integrated into the various components of the separate business processes. The IAD reports primarily to the Chairman of the Managing Board. The Head of the IAD reports independently to the Audit Committee on the basis of the quarterly reports submitted to the Managing Board, and may contact the members and/or Chairman of the Audit Committee directly. The Head of IAD will consult with the Chairman of the Audit Committee at least once a year (Audit Committee Charter, Article 5.6). In addition, the Audit Committee will hold at least one meeting each year with the internal auditor without the Managing Board being present (Audit Committee Charter, Article 2.3).
Periodic exchange of information between the IAD, the external auditor and the Audit Committee and Risk Committee.	The IAD, the external auditor and the Audit Committee will periodically exchange information. The topics discussed during these information-sharing meetings will include the risk analysis and the IAD's and the external auditor's audit plan (Internal Audit Charter).
The IAD, DNB (the Dutch Central Bank) and the external auditor will discuss each other's risk analysis, findings and audit plan. These talks will be encouraged.	The IAD will take the initiative to arrange talks with DNB/the European Central Bank (ECB) and the external auditor at least once a year to discuss each other's risk analyses, findings and audit plans at an early stage. The Managing Board and the IAD will encourage these periodic tripartite talks (Internal Audit Charter).

Remuneration policy	
A prudent, restrained and sustainable remuneration policy.	Managing Board Charter, Article 7.1 Remuneration and Appointment Charter, Article 1.1[8] Remuneration Policy for employees
The total income of a member of the Managing Board.	Managing Board Charter, Article 7.1 Remuneration and Appointment Charter, Article 1.2 Remuneration Policy for the Managing Board[10]
Variable remuneration of a member of the Managing Board.	Managing Board Charter, Article 7.1 Remuneration and Appointment Charter, Article 1.2 Remuneration Policy for the Managing Board

7) Internal Audit Charter of NWB Bank, December 2016.
8) Remuneration and Appointment Charter of NWB Bank, September 2016.
9) Remuneration Policy for the Managing Board, September 2015.
10) Remuneration Policy for the employees of NWB Bank, March 2016.

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