NWB BANK

Annual report

NEDERLANDSE WATERSCHAPSBANK N.V.

2017

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Chapters 3, 5 and 6 make up the consolidated management report as described in the Dutch Civil Code, Section 2:391

NWB BANK 2017 AT A GLANCE

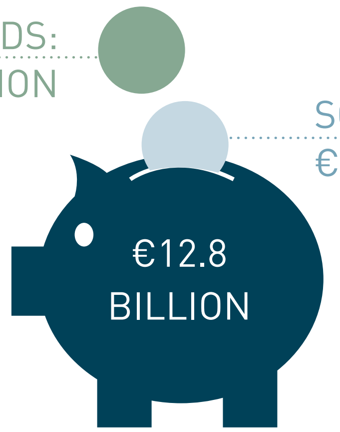
NET PROFIT
UP **14%**

2017
€122.5 MILLION

2016
€107.4 MILLION

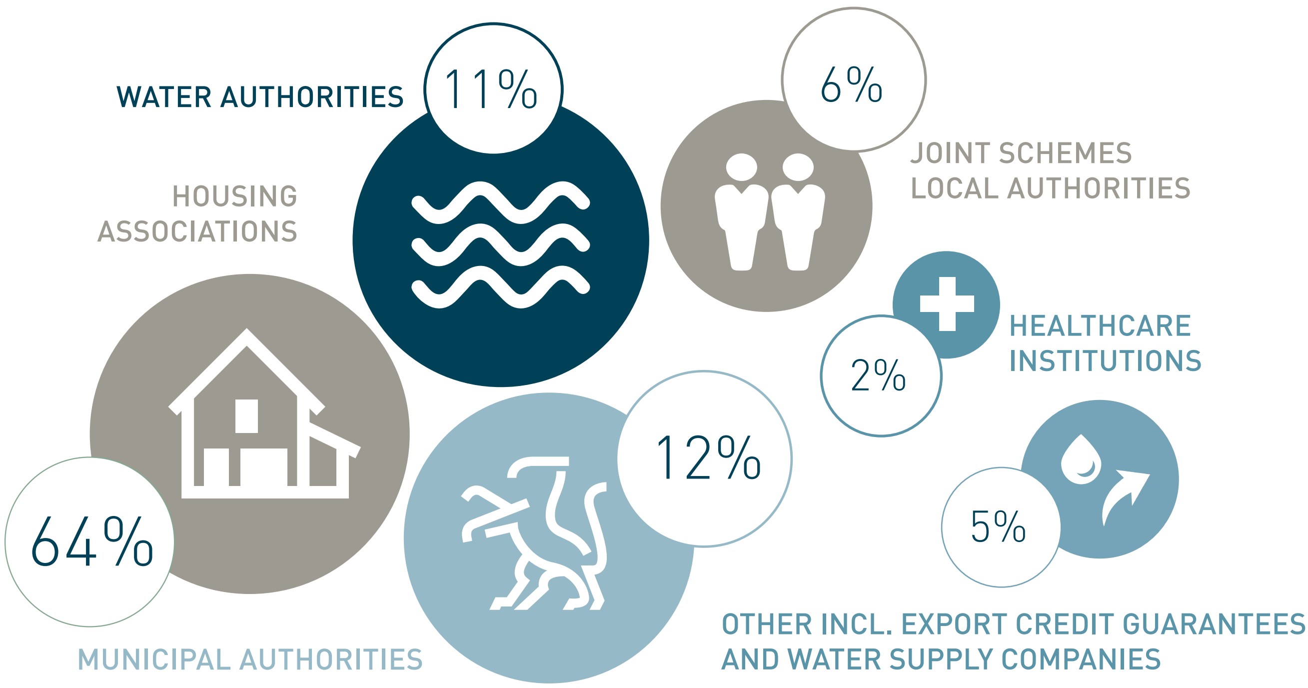
GREEN BONDS:
€877 MILLION

SOCIAL BONDS:
€2.6 BILLION

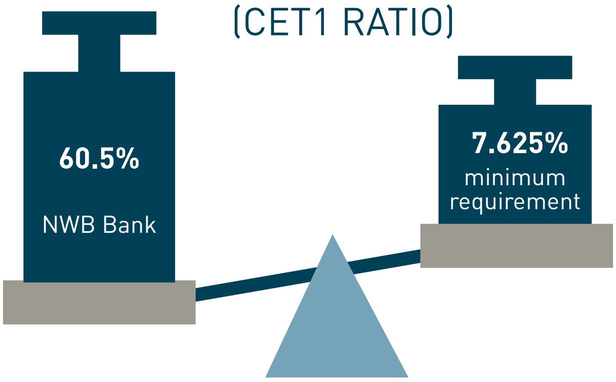


MORE THAN **€3.4 BILLION**
IN FUNDING RAISED WITH GREEN BONDS AND SOCIAL BONDS (27% OF THE TOTAL LONG-TERM FUNDING)

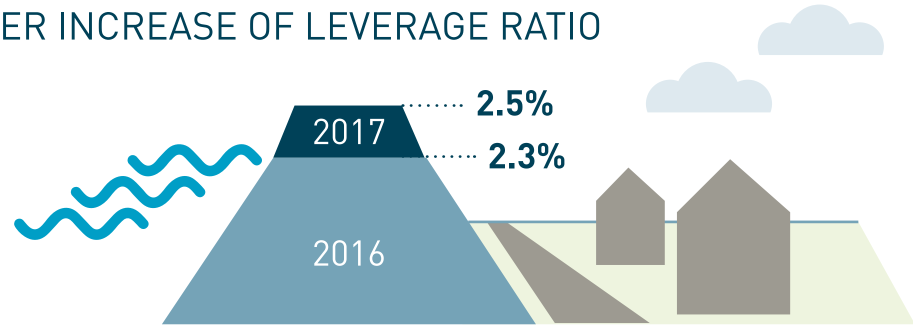
€6.2 BILLION IN NEW LENDING
TO THE DUTCH PUBLIC SECTOR



STRONG CAPITAL RATIO (CET1 RATIO)



FURTHER INCREASE OF LEVERAGE RATIO



Mission
As a robust and sustainable bank for the public sector, we help our clients to create added value for society.

Vision
Our ambition is to keep the public sector's financing costs as low as possible and to be available for our clients at all times.

Strategy
By responding to the changing requirements of our clients and by further diversifying our lending activities, we are increasing our social commitment as an independent promotional bank.
A cost-conscious organisation, we use our AAA/Aaa ratings to raise funds for the public sector in an inexpensive and sustainable way.

Core values
Conscious, engaged and reliable.

Read more in Chapter 3 ›

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HEADLINE FIGURES

1. HEADLINE FIGURES

(amounts in millions of euros)	**2017**	2016	2015	2014	2013
Balance sheet					
Long-term loans and advances (nominal value)	**47,280**	48,260	49,069	49,421	49,595
Equity[1]	**1,628**	1,507	1,399	1,303	1,256
Tier 1 capital[1]	**1,942**	1,824	1,594	1,300	1,256
Total assets	**87,123**	94,414	91,314	88,249	73,006
Risk-weighted assets	**2,680**	2,979	1,998	1,780	1,245
Results					
Net interest income	**276**	219	177	117	95
Results from financial transactions	**-58**	-25	-6	-16	-14
Operating income	**218**	193	171	101	81
Operating expenses[2]	**20**	19	18	16	16
Income tax expense	**47**	42	37	21	16
Bank tax and resolution levy	**28**	25	21	15	15
Net profit	**123**	107	95	49	34
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)	**2017**	2016	2015	2014	2013
Ratios (%)					
Tier 1 ratio[1]	**72.5[4]**	61.2	79.8	73.0[3]	100.9
CET1 ratio[1]	**60.5[5]**	50.5	69.8	73.0[3]	100.9
Cost/income ratio[2]	**9.2**	9.7	10.5	15.8	19.8
Dividend pay-out ratio	**0.0**	0.0	0.0	0.0	0.0
Leverage ratio[1]	**2.5**	2.3	2.1	1.8	1.9
Liquidity Coverage Ratio (LCR)	**179**	146	134	144	110
Net Stable Funding Ratio (NSFR)	**126**	123	117	107	107
Corporate Social Responsibility					
Volume of Green and Social Bond issuance	**3,480**	1,110	1,000	500	-
CO_2 emissions from operating activities p.p. (in tonnes)	**3.9**	4.1	4.0	4.8	4.5

1) Including profit for the financial year.
2) Excluding bank tax and resolution levy.
3) With the Capital Requirements Regulation and Directive (CRR/CRD IV) having taken effect on 1 January 2014, the Tier 1 ratio and CET1 ratio dropped by approximately a quarter, due to the introduction of the Credit Valuation Adjustment (CVA) capital charge.
4) 67.9 excluding profit for the year (2016: 57.6).
5) 55.9 excluding profit for the year (2016: 46.9).

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ORGANISATION

2. ORGANISATION

MANAGING BOARD

Name	**Lidwin van Velden** (1964)
Year of first appointment	2010
Term of office ends in	2022
Principal position	Acting Chair of the Managing Board
Portfolio	Strategy, communication, finance & control, risk management, back office, security management and tax Additionally: internal audit department, legal & compliance, secretariat
Relevant other positions	Member of the Audit Committee of the Ministry of Education, Culture and Science Member of the Supervisory Board of Centraal Beheer Achmea Pension Fund (from May 2017) Member of the Supervisory Board PharmAccess Foundation (from November 2017)

Name	**Frenk van der Vliet** (1967)
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 Additionally: human resource management
Relevant other positions	None

MANAGEMENT TEAM

Lidwin van Velden, acting Chair of the Managing Board (from 25 October 2017)
Frenk van der Vliet, member of the Managing Board
Marian Bauman, human resource 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** (1950), Chair
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 of Dutch Council of State Member of the Board of Pensioenfonds Zorg en Welzijn (Dutch Pension Fund for the care and welfare sector) Chair of the Investments Committee of Pensioenfonds Horeca & Catering Member of the SME Financing Committee of the Dutch Ministry of Economic Affairs and Climate Policy

Name	**Maurice Oostendorp** (1956), Deputy Chair
Committees	Chair of the Audit Committee, member of the Risk Committee
Year of first appointment	2012 (EGM)
Term of office ends in	2021
Principal position	Chief Executive Officer of de Volksbank N.V.
Relevant other positions	Member of the Advisory Council of Women in Financial Services (WIFS)

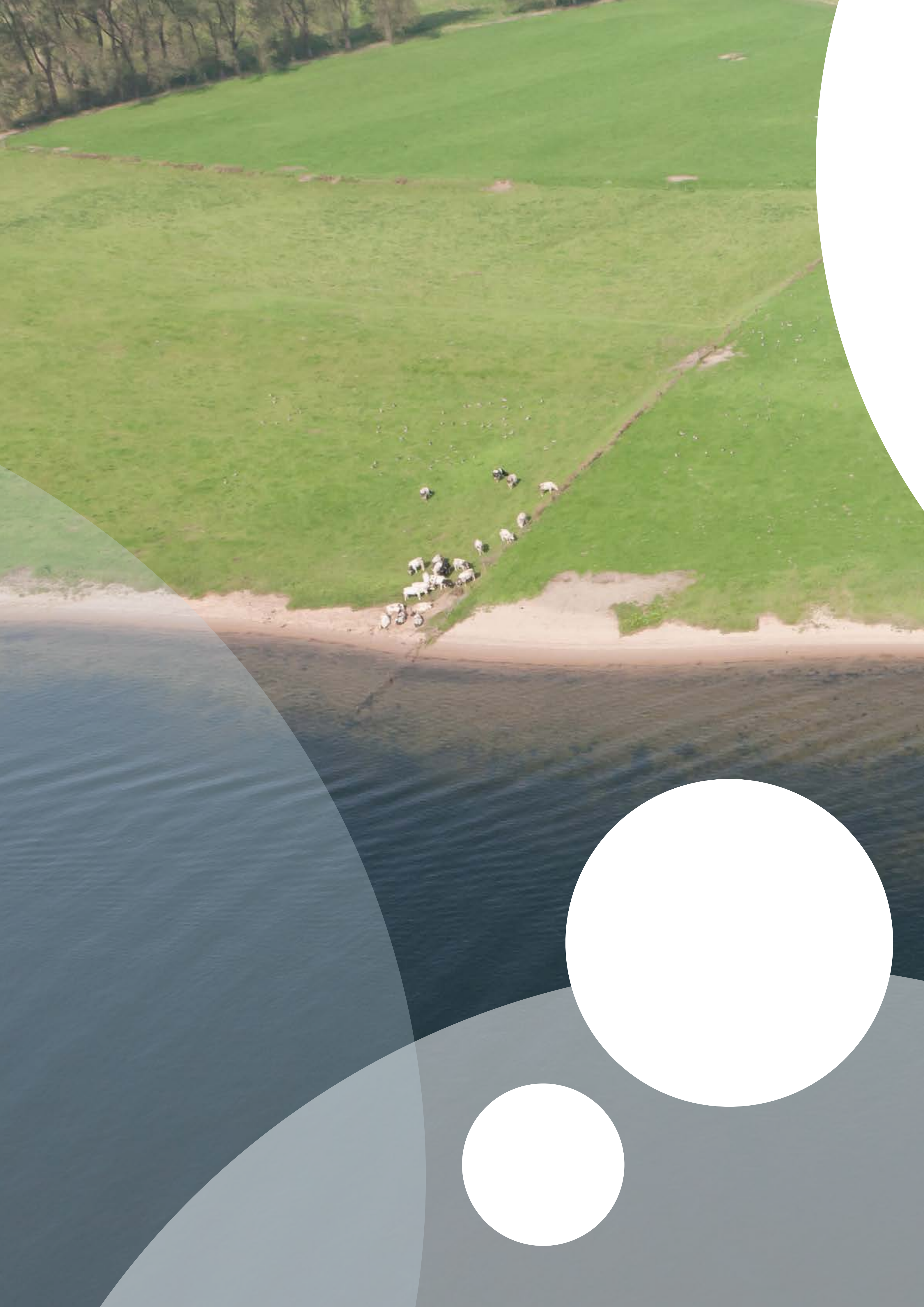
Name	**Peter Glas** (1956)
Committees	Chair of the Remuneration and Appointment Committee
Year of first appointment	2011
Term of office ends in	2019
Principal position	Water Reeve of De Dommel Water Authority
Relevant other positions	Board member of Noord-Brabant Association of Water Authorities Chair of OECD Water Governance Initiative Chair of Stichting Tauw Foundation

Name	**Petra van Hoeken** (1961)
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 of Rabobank
Relevant other positions	Member of the North America Board of Directors Utrecht-America Holdings, Inc., and member of the North America Board Risk Committee Member of the Advisory Board of Amsterdam Institute of Finance Member of the Board and Audit Committee of Oranje Fonds (from June 2017)

Name	**Manfred Schepers** (1960)
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 Senior Advisor at the European Bank for Reconstruction and Development, London
Relevant other positions	Member of the Supervisory Board of Van Lanschot Kempen (from May 2017) Member of the Investment Committee of European Fund for Strategic Investments (EFSI) Member of the Board of Fotowatio Renewable Ventures B.V. Member of the Board of Almar Water Solutions B.V. Project manager of Impact Loan Exchange ILX, Cardano Development Chair of the Board of Het Compagnie Fonds, National Maritime Museum Advisory Board member of Amsterdam Institute of Finance Member of the Board of Governors of UWC Atlantic College Trustee of UWC Dilijan, Armenia and UWC Maastricht

Name	**Frida van den Maagdenberg** (1961)
Committees	Member of the Remuneration and Appointment Committee
Year of first appointment	2017
Term of office ends in	2021
Principal position	Member of the Managing Board, Academisch Medisch Centrum (AMC)
Relevant other positions	Member of the Supervisory Board, Nederlandse Loterij Member of Centrale Plancommissie (CPB) Member of the Supervisory Board Nederlands Instituut voor Onderzoek van de Gezondheidszorg (NIVEL)

Name	**Toon van der Klugt** (1956)
Committees	Member of the Remuneration and Appointment Committee
Year of first appointment	2017 (EGM)
Term of office ends in	2022
Principal position	Deputy Water Reeve of Schieland en de Krimpenerwaard Water Authority
Relevant other positions	Director-owner of Orsilcom BV Deputy Chair and Secretary of Stichting Administratiekantoor Vreugdenhil-Klugt Beheer Chair of GR De Regionale Belastinggroep (de RBG)



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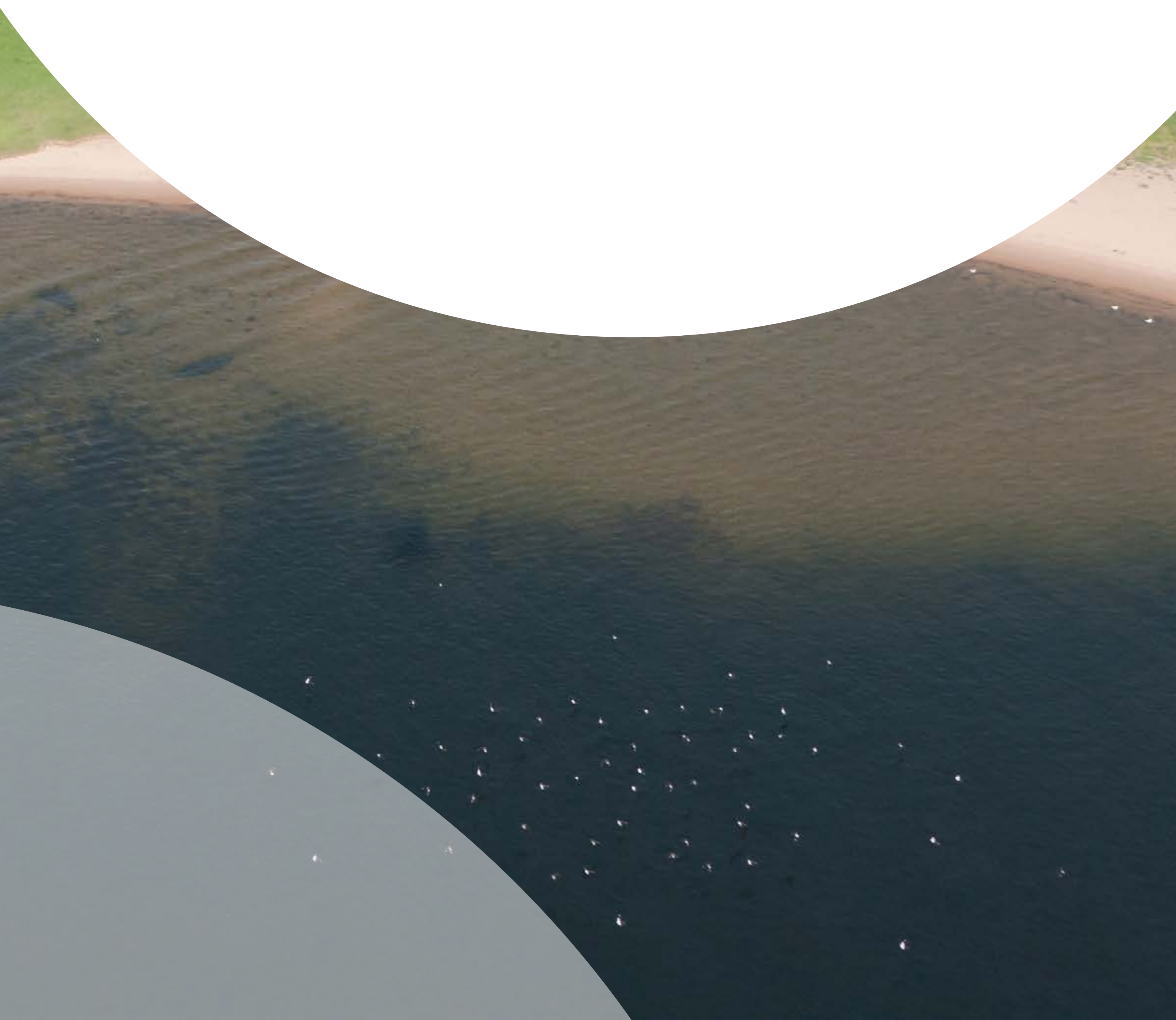
REPORT OF THE MANAGING BOARD



3. REPORT OF THE MANAGING BOARD

The Managing and Supervisory Boards are pleased to present the 2017 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).

The Managing and Supervisory Boards propose that you adopt the 2017 financial statements as submitted. They 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.

SUMMARY

- **€6.2 billion in new lending to the Dutch public sector**
- **Net profit up 14% to €122.5 million** (2016: €107.4 million)
- **More than €3.4 billion in funding raised with Green Bonds and Social Bonds** (27% of the total long-term funding)
- **Strong capital ratio** (CET1 ratio): **from 50.5% to 60.5%**

NWB Bank has experienced a successful year. Lending amounted to €6.2 billion and the bank's net profit increased by 14% to €122.5 million (2016: €107.4 million). The increase in profit is mainly due to the fact that the bank made optimum, but appropriate use of the particularly favourable funding rates in the money market, stemming from the ECB's extensive asset purchase programme and the low-interest environment. The bank has used those attractive short-term funds for short term lending to its clients, to strengthen its liquidity buffer and to meet the collateral obligations under the derivatives contracts, which it is concluding to cover its own risks. The balance sheet total amounted to €87 billion. With the number of employees standing at about 65, NWB Bank remains a very cost-efficient bank.

Water authorities and housing associations, together with municipalities, remain NWB Bank's biggest client groups. NWB Bank provides appropriate financing to these and other public sector clients at the lowest possible cost to enable them to fulfil their duties in society as effectively as possible. This includes helping them achieve their ambitions in the field of sustainability.

The bank is always available for its clients and continually responds to their changing requirements. For example, over the past year housing associations have been able to convert their derivative contracts with commercial banks into multi-year fixed-interest loans with NWB Bank, secured by the Social Housing Guarantee Fund. As a result of this, more liquidity becomes available for investments in social housing. In total, the bank was involved in converting derivatives for an amount of nearly €500 million in 2017.

In order to meet clients' demand for financing, the bank issued €12.8 billion in long-term bonds on the international capital market over the past year.

NWB Bank entered the Social Bond market in 2017. The first Affordable Housing Bond (AHB) issued by the bank in June amounted to €2 billion. This was followed by a second AHB amounting to €600 million in August. As the proceeds from the Affordable Housing Bonds specifically benefit the financing of social housing, it also helps to improve the sustainability of the existing social housing stock. NWB Bank also issued a further three Water Bonds (Green Bonds) in 2017. The proceeds from these bonds are used to finance water authorities' projects that contribute to climate mitigation, climate adaptation and biodiversity. The bank issued Water Bonds in Swedish krona and US dollars; the total amount equalled €877 million, further expanding NWB Bank's leading position in the Green Bond market.

The bank's capital ratios have strengthened further over the past year. With a Common Equity Tier 1 (CET1) ratio of 60.5%, the bank is one of the front runners in the eurozone. The statutory minimum requirement for NWB Bank is 7.625% as at 1 January 2018 (including the Pillar 2 own funds requirement of 1.25%). The leverage ratio rose to 2.5% in 2017 (2.3% in 2016). The Liquidity Coverage Ratio stands at 179%, well above the minimum requirement of 100%.

NWB Bank attaches great importance to a specific application of the leverage ratio obligation for promotional banks. The European Commission had already included this in its proposals for amendment of the Capital Requirements Regulation (CRR) , which it presented in November 2016. Clarity on this issue is expected by the end of 2018, in anticipation of which the bank has decided not to issue any further hybrid capital for the time being.

Expectations are that the Dutch economy will continue to grow in 2018 thanks to, among other things, higher levels of business investment, consumer spending, investment in housing and export. Government expenditure is also set to increase in 2018, which may result in NWB Bank's clients also increasing their levels of public investment. NWB Bank intends to maintain its lending level in 2018 by continuously responding to the changing requirements of its clients and by further diversifying its lending activities. Against the background of the ECB's announcement that it will phase out its quantitative easing policy, it is expected that funding rates in the money market will gradually normalise in 2018. It is therefore anticipated that the bank's net profit will come out at a lower level than in 2017.

INTRODUCTION

Conditions in 2017 were quite favourable for the Dutch economy. In 2017, ten years after the financial crisis broke out, economic growth in the Netherlands amounted to 3.1%. The unemployment rate fell to below 5% and the government debt decreased. Consumer confidence reached its highest level in a decade in 2017. Signs of economic growth are also clearly visible in the rest of Europe, although the Netherlands appears to be benefiting more than other countries from the growth in global trade.

There are uncertainties too, not least because growth is still accompanied by low inflation rates. For 2017 as a whole, inflation amounted to 1.35% in the eurozone and 1.30% in the Netherlands. Against this background, the European Central Bank (ECB) decided to keep the interest rate unchanged at 0% for the entire year. The deposit rate also remained unchanged throughout the year, at -0.40%. However, the ECB did announce in October that it plans to phase out its asset purchase programme starting in early 2018. Between January 2018 and September 2018, 30 billion euros in debts will be purchased every month, a 50% reduction compared with 2017. Influenced by the ECB's generous monetary policy, interest rates in the money markets have barely moved and remained negative throughout the year. Interest rates in the capital market also remained within a relatively narrow range in 2017.

Elections for the Dutch Parliament were held on 15 March, and it was not until the end of October that a coalition agreement was in place. The final announcement of the new government had a special significance for NWB Bank because its acting Chair of the Managing Board, Menno Snel, had stepped down to be appointed State Secretary for Finance.

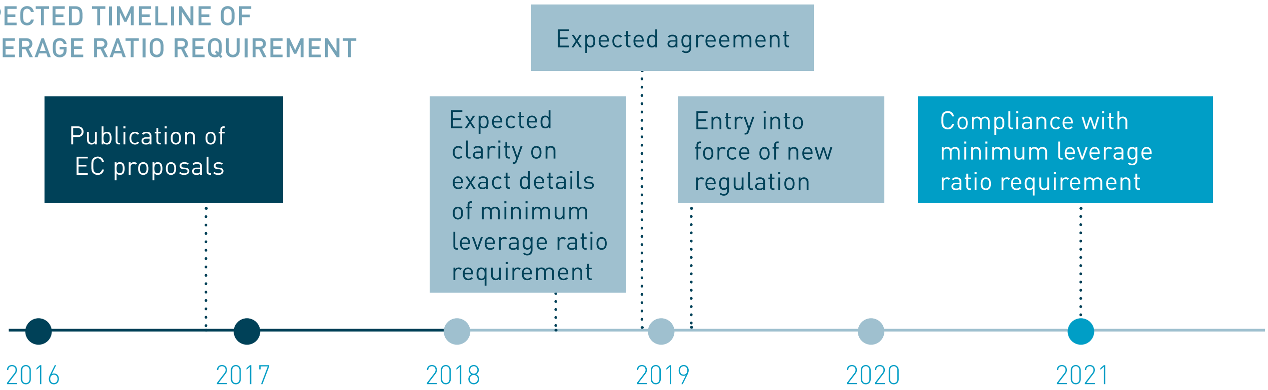
The new government is committed to increase sustainability and has announced that it is set to conclude a new National Climate and Energy Agreement with public sector organisations so as to achieve a 49% reduction in CO_2 emissions as compared with 1990 levels. The government has made available a total of nearly €4 billion to increase sustainability in the Netherlands. One aspect that will be of particular interest to NWB Bank clients and shareholders is that even greater emphasis is to be placed on climate resilience and robust water defences in the implementation of the Delta programme. Furthermore, housing associations that invest in sustainability will be eligible for a rebate on the landlord levy *(verhuurdersheffing)*.

The government has announced its intention to press ahead with the formation of the Dutch institution for development and investment, Invest-NL. Invest-NL is intended to facilitate investments which, owing to their uncertain risk/return ratio or lengthy, uncertain repayment periods, are unable to attract sufficient funding in the market. The energy transition is a frequently cited example in this context. Invest-NL will also provide start-up capital for innovative start-ups and scale-ups, and support for Dutch export companies and investments abroad. The activities Invest-NL is set to carry out are expressly viewed as complementary to those of NWB Bank, which is why NWB Bank will be actively seeking to work in partnership with it.

The coalition agreement also contains a comprehensive package of tax measures. For instance, it has been proposed to reduce income tax for businesses and the coalition parties plan to abolish dividend tax altogether. At the same time, there are plans to limit interest relief on loan capital, specifically for banks and insurers, with the introduction of what is known as a thin cap rule. Although the precise details of this rule are not yet known, any such cap on the deductibility of interest on loan capital could have an impact on NWB Bank. As regards banks and supervision specifically, the new government has indicated that it intends to adhere to a common EU policy. Dutch banks will therefore not be subject to a higher leverage ratio than that applied to other European banks.

The concrete details of the leverage ratio obligation are part of the Capital Requirements Regulation (CRR) that is currently being amended. The bank is keeping a

EXPECTED TIMELINE OF LEVERAGE RATIO REQUIREMENT



close eye on the European decision-making process in this regard. The European Commission (EC) published proposals (in November 2016) in which it made a case for a specific application of the leverage ratio obligation for promotional banks such as NWB Bank. Though further clarification is required on some aspects, the proposed wording would significantly ease the leverage ratio requirements for the bank. Expectations are that greater clarity on the precise details will be provided in the second half of 2018. Shortly after the agreement, which is expected to be reached in late 2018, the relevant regulations will enter into force, signifying a delay of at least one year when compared with the original date. In addition to that, it will take a further two years after publication i.e. end of 2020 / early 2021 before banks will have to comply with the minimum leverage ratio requirement.

Even while work is still being done in Brussels on transposing the Basel III measures into European laws and regulations, proposals for 'Basel IV' were presented on 7 December. The substance of the proposals is that banks will be left with less discretion to apply their internal risk models to determine the amount of capital to be held. Although the new Basel standards will ultimately also have to be transposed into European laws and rules, and European legislators could yet decide to make amendments, the proposals have already caused concern among Dutch banks as regards the European level playing field and the role they will be able to play in financing the economy. Since NWB Bank already uses the standardised approach, so far Basel IV seems unlikely to cause insurmountable problems.

In short, the Dutch economy showed significant growth in 2017. The Dutch public sector again was able to borrow at historically low interest rates in 2017, with negative interest rates for terms under three years. Thanks in part to these low interest rates the government was able to limit the burden on citizens. Nevertheless, in 2017 investments within the public sector continued to lag behind the private sector, where stronger growth was evident. A decline in the financing requirement of housing associations has been apparent for several years, in part due to the sale of property. At the same time, enhancing the sustainability of the associations' housing stock is an important issue, and is expected to lead to a higher financing requirement in the future. The water authorities expect their financing requirements are expected to increase, partly because of the major investment agenda under the Delta programme.

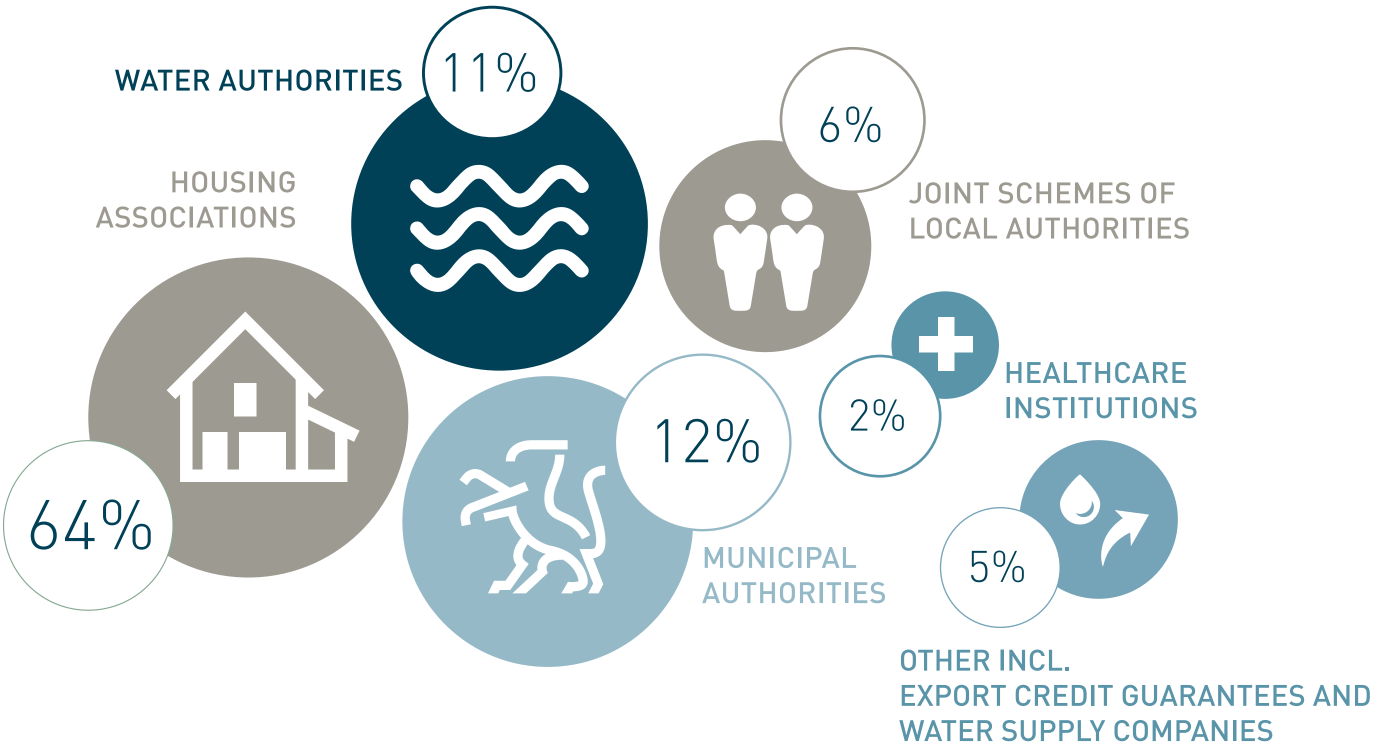
NWB BANK IN 2017

LENDING

NWB Bank succeeded in consolidating its strong position in the market for public sector financing in 2017 despite increasing competition from, among others, institutional investors. Its new long-term lending (including interest rate resets) amounted to €6.2 billion in 2017 (2016: €7.1 billion) and the total portfolio of long-term loans to clients, based on principal amounts, amounted to €47.2 billion at year-end 2017 (2016: €48.2 billion). This means that the bank has financed over one third of the public investment agenda in the Netherlands.

The bank's most important clients (water authorities, municipal and provincial authorities, institutions guaranteed by local and regional government bodies and institutions in the area of social housing and healthcare) represent the bulk of the lending volume (98%). The illustration below contains a breakdown of lending volume by sector relative to the total volume of lending i.e. €6.2 billion:

BREAKDOWN OF LENDING VOLUME 2017



Water authorities

The share of water authorities in the bank's total lending volume decreased relative to 2017. This is mainly because several water authorities extended the maturity of their loan portfolio in 2016, as a result of which they required less refinancing in this year. Water authorities' financing amounted to more than €675 million in 2017, meaning that the bank provided over 92% of their total financing needs. This is in line with the bank's objective of fulfilling a dominant financing role for its shareholders. The bank aspires to strengthen its dominant role over the next few years so as to continue fulfilling its core duty towards shareholders.

Housing associations

In terms of volume and outstanding financing, housing associations are and will remain NWB Bank's largest client group. This is unsurprising since this sector still makes up the vast majority of the public sector debt. The bank's lending volume within this sector was €3.95 billion in 2017 (2016: €3.8 billion). That volume relates to the primary demand for loans and advances and to the review of loan charges for basic interest rate loans. NWB Bank finances only what are known as DAEB activities (Services of General Economic Interest) of housing associations, which are guaranteed by the Social Housing Guarantee Fund (WSW).

In the second quarter, the bank took part in a WSW pilot project which enabled housing corporations to convert their derivative contracts with commercial banks into a new fixed-rate, long-term loan with NWB Bank. This way, NWB Bank is helping to phase out derivative positions in the sector, as a result of which housing associations no longer need to maintain extra liquidity buffers and can free up up financial resources for investing in social housing.
After the successful pilot, the WSW amended its 'Derivatives Guidelines' to facilitate such transactions. It is also guaranteeing the new loans granted by the bank. In total, the bank was involved in conversion arrangements involving €478 million in 2017.

The bank is also helping housing associations to phase out their derivative positions in another way. For housing associations to be able to meet their collateral obligations and breakage costs when they unwind their derivative transactions with commercial banks, they need a liquidity buffer. To that end, the bank grants them specific WSW-guaranteed loan facilities. The bank has granted more than €200 million in facilities of this kind. NWB Bank itself does not enter into derivatives transactions with its clients.

Municipal authorities

The municipal authorities are another major client group. In 2017, NWB Bank provided municipal authorities with €745 million in loans (2016: €907 million). The bank also granted more than €400 million to finance Joint schemes (2016: €21 million). Local authorities cooperate in many areas, generally on tasks which they can perform more effectively or efficiently together. 'Partnership' is sometimes prescribed by law, such as in the case of security regions, but it is usually voluntary. NWB Bank this year increased its focus on financing this specific form of partnership adopted by local authorities, which has resulted in a higher volume.

Collaboration with the European Investment Bank

NWB Bank continued its collaboration with the European Investment Bank (EIB) in 2017. In the past year, the EIB made €250 million available to NWB Bank to invest in enhancing the sustainability of social housing and help the water authorities to achieve their circular economy ambitions. Since NWB Bank is committed to providing at least the same amount, €500 million in public investments has been mobilised. The EIB's loan to NWB Bank is a follow-up to their earlier collaboration, which saw €800 million lent to finance projects in the course of 2016. The collaboration between the two promotional banks is designed to provide the public sector in the Netherlands with funding at even more attractive rates. It also means that smaller projects and clients, which would otherwise be ineligible, can benefit from very inexpensive EIB financing. The bank intends to continue providing its clients with this type of financing in 2018.

Public-Private Partnerships

NWB Bank has broadened its credit policy and product range in recent years in order to play a larger role on behalf of its public sector and semi-public sector clients and to thus support government policy. For instance, the bank became active in the field of export financing and in financing Public-Private Partnerships (PPP). Unlike 2016, which was a successful year for the bank in the PPP market, 2017 was a gap year. The financial close of all tenders running and initiated in 2017 will not take place until 2018. Through various consortia, the bank competes to participate in the financing for all these projects put out to tender by the government.

Export financing

In the area of export financing, the bank granted a loan under an Export Credit Guarantee (ECG) of the Dutch government. On this occasion, the loan was granted to Climate Investor One, an initiative for sustainable infrastructure and energy projects in developing countries. With this transaction, the bank underpins its contribution to the financing of sustainable energy and the circular economy. In providing commercial parties with 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 are clearly also conducive to the position of Dutch exporters.

NHG RMBS

The bank has a portfolio of NHG RMBS notes (Residential Mortgage Backed Securities, based on mortgages under the National Mortgage Guarantee (NHG) scheme), through which it contributes to the financing of government-backed residential mortgages. This portfolio forms part of the bank's liquidity portfolio. The supply of fully NHG-guaranteed transactions is limited and the bank has not purchased any new NHG RMBS notes in 2017. The total NHG RMBS portfolio currently amounts to €1.7 billion (2016: €2.1 billion).

FUNDING

Long-term funding

To ensure it is able to provide long-term financing, NWB Bank raised a total of €12.8 billion (2016: €12.4 billion) in long-term funding in 2017, which it uses to finance both the bank's activities and to refinance maturing loans. The average term of the funding raised is 9.7 years (2016: 8.5 years). In 2017, NWB Bank issued a total of five benchmark loans in both euros and US dollars with maturities between 4 and 30 years totalling €5 billion.

Given the low interest rate levels, during the course of the year investors were interested in longer maturities to enhance their yield.
As a consequence, the bank was able to issue loans in euros at historically low charges and increase outstanding loans, thus reducing the liquidity mismatch.

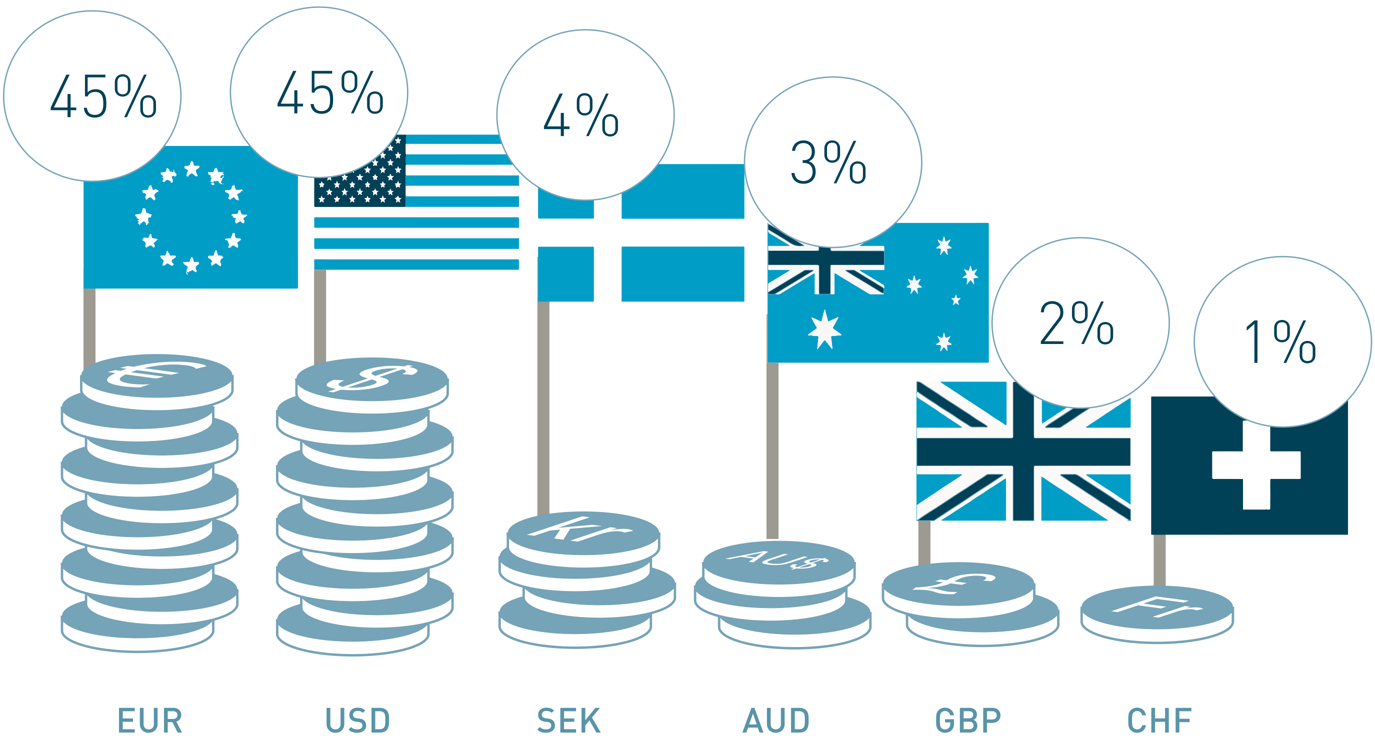
The bank is able to raise funding on very favourable terms thanks to its AAA ratings, which are equal to those of the Dutch State. The fact that the bank's bonds are eligible for the ECB asset purchasing programme (QE, Quantitative Easing) is likewise a favourable factor. The bonds issued by NWB Bank qualify as High-Quality Liquid Assets (HQLA) and, as such, can be used by other banks to meet the liquidity requirements under the Liquidity Coverage Ratio (LCR). These factors mean that financing in euros and US dollars is so attractively priced that other currencies usually prove more expensive. The combined share of the euro and US dollar funding is 90%.

The past year saw a striking trend in charges for financing in euros. Despite expectations that the ECB's asset purchase programme was nearing an end, there was a downward trend which even continued after the ECB announced a 50% reduction of its asset purchase programme during its October meeting.

Social Bonds

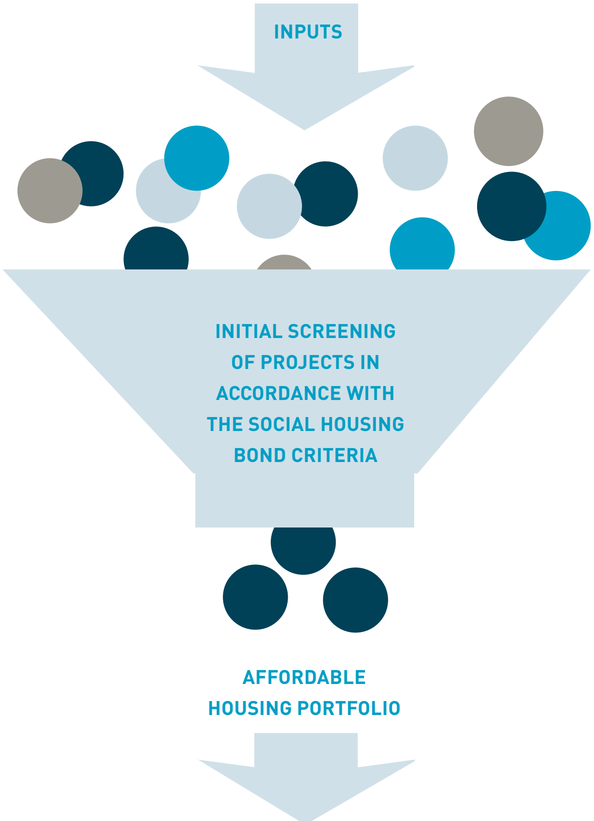
The bank issued its first Affordable Housing Bond (AHB) in 2017. The proceeds of this Social Bond will exclusively be used for the financing of social housing. The first AHB was a combination of a 7-year benchmark bond amounting to €1.5 billion and a 15-year benchmark bond amounting to €500 million. This was the first time that a single party borrowed that much money through the issue of a Social Bond, causing the transaction to attract considerable media attention.

DIVISION OF CURRENCY GRAPH



A second AHB amounting to €600 million with a 30-year term was subsequently issued in August. Never before had NWB Bank issued a bond with such a long term. As is the case with the annual Water Bond, the bank reaches many new investors with a specific interest in environmental and social impact through such bonds.

SELECTION PROCESS AFFORDABLE HOUSING BOND



Water Bonds

The Bank again issued three Water Bonds (Green Bonds) in the past year. The proceeds from those bonds are being used to finance Green Bond Eligible Projects by the Dutch Water Authorities that target issues such as climate mitigation, climate adaptation and biodiversity. January saw the first issue of a Water Bond in Swedish krona (SEK), carried out to serve the interests of Swedish investors. This bond amounted to SEK 3 billion (approximately €315 million) with a 6-year term. Investors' interest was confirmed by a second issue for SEK 1.25 billion (approximately €130 million) in April and the similarly successful issue of a Water Bond in US dollars in November. This involved a 4-year benchmark Water Bond amounting to USD 500 million (approximately €432 million). The bank has now issued six Water Bonds in total, which positions it among the leading group of Green Bond issuers worldwide.

By issuing both new Water Bonds and Affordable Housing Bonds, NWB Bank continues to attract new investors and broaden the market span for Green and Social 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. 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. The bank's commitment to the Water Innovation Prize should also be viewed in this light. This prize is awarded by the bank jointly with the Dutch Association of Water Authorities to the water authorities' most innovative projects.

Money market

To raise short-term funding, NWB Bank issues commercial paper (CP), debt instruments with maturities of up to a year. The bank operates not only a Euro Commercial Paper programme (ECP), but also a US Commercial Paper programme (USCP) aimed at the US market. A sum totalling the equivalent of €42 billion with maturities averaging 3.6 months was raised under the ECP programme and the equivalent of €74 billion with maturities averaging 0.7 months under the USCP programme. The figures stated are cumulative, since maturing commercial paper was refinanced in the course of the year. The average outstanding commercial paper amount in 2017 was €16.8 billion.

All money market funding was obtained at negative effective interest rates. The bank largely uses money market funding to fund short-term loans to clients, collateral obligations arising from its derivative positions and the large liquidity buffer the bank maintains in cash.

Finally, NWB Bank also participated in short-term USD bonds with maturities of up to two years. Those bonds to some extent replaced the issuing of commercial paper, which meant that the favourable rates could be maintained for a longer period.

RESULTS

NWB Bank's net profit rose by to €122.5 million in 2017 (2016: €107.4 million) The bank obtained optimum benefit from the attractive rates, particularly for short-term funding, in the market, stemming from the ECB's extensive asset purchase programme and the low-interest environment. This attractive short-term funding combined with a greater volume resulted in improved results enabling the liquidity buffer to be strengthened and allowing the bank to meet the outstanding collateral obligations under the derivatives contracts, which it is concluding to cover its own risks. This helped to increase the net interest income by approximately €58 million, taking it to €276 million.

In part due to a lower volume of maturity extensions and early repayments compared with 2016, the results from financial transactions were €58.2 million negative in 2017 (2016: €24.5 million negative). In fact, the fall in the results from financial transactions was expected and is in part due to an earlier restructuring of the derivatives portfolio undertaken by the bank a number of years ago to bring its interest rate risk position into line with the benchmark return on equity. This will continue to have a negative impact on the results on financial transactions in the next few years as well.

In 2017, operating costs rose by approximately €0.9 million to €19.7 million (2016: €18.8 million). This is primarily the result of higher employee benefits and regulatory costs. Regulatory costs again rose substantially in the past year, amounting in 2017 to €3.0 million (2016: €2.2 million). Bank tax rose further to €19.9 million (2016: €19.5 million) as a result of the bank's increased total assets at year-end 2016, being the benchmark for the 2017 bank tax. In 2017, 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 €7.7 million before tax, excluding an irrevocable obligation of €1.4 million (2016: a contribution of €5.8 million before tax, excluding an irrevocable obligation of €1.0 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 31 December 2017, the bank's balance sheet total was €87.1 billion compared with €94.4 billion at the close of 2016. At €47.2 billion, the lending portfolio makes up approximately half of the balance sheet total, the remainder comprising the liquidity buffer, liquidity portfolio and fair values in the bank's loan and derivatives portfolio. The fall in the balance sheet total is largely due to a decline in the fair value of balance sheet items as a result of higher interest and exchange rates. In addition, 2017 was the first year in which the bank used a settled-to-market method for centrally cleared derivatives. Not only has this contributed to greater transparency in reporting, it is also leading to a decrease in the balance sheet total because derivative positions are repeatedly being offset against each other.

At the end of 2017, the bank's equity totalled €1,628 million (including 2017 profit) against €1,507 million at the end of 2016 (including 2016 profit). The bank has agreed a target return on equity with its shareholders. The benchmark for this return is based on the income from a 10-year continuous investment in a 10-year Dutch government bond, plus a surcharge appropriate to the bank's profile. The return on equity for 2017 was 7.8%, which means NWB Bank has met the relevant benchmark.

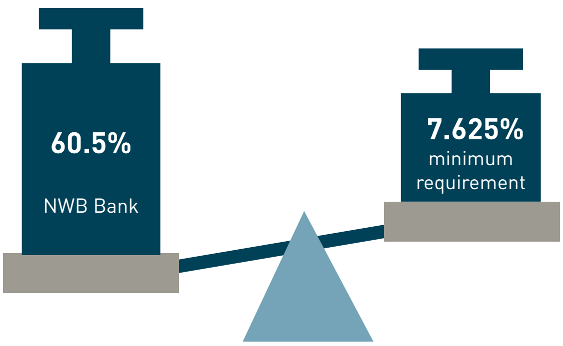
Tier 1 equity including hybrid capital (AT1) stood at €1,942 million at year-end 2017 (including profit for 2017). The bank's total risk-weighted assets amounted to €2,680 million as compared with €2,979 million at the close of 2016. The decrease is largely due to a decline in the NHG RMBS portfolio and the decreased exposure to financial counterparties owing to the introduction of central clearing for interest rate derivatives. As a result of the decline of risk-weighted assets and increase in equity, the Tier 1 ratio rose from 61.2% at the end of 2016 to 72.5% at the end of 2017 and the Common Equity Tier 1 ratio (CET1 ratio) climbed from 50.5% at the end of 2016 to 60.5% at the end of 2017 (both including profit for the financial year).

NWB Bank's capital ratios mentioned above are well above the minimum requirement, which underlines its high creditworthiness and low risk profile. At the end of 2017, the ECB set the minimum required CET1 ratio for NWB Bank at 7.625% as a result of the annual Supervisory Review and Evaluation Process (SREP). The 7.625% minimum capital requirement comprises the 4.5% statutory minimum, a 1.875% general capital conservation buffer and a 1.25% bank-specific Pillar 2 requirement.

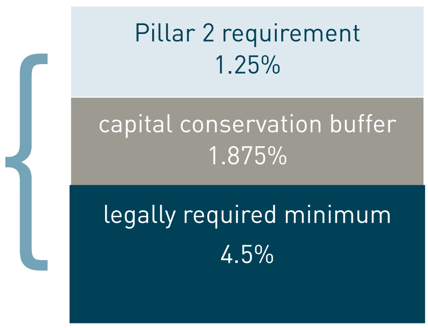
The bank's leverage ratio rose by 0.2 percentage points to 2.5% in the past year (including profit for the financial year). This is in part the result of the profit of the current financial year being added to equity and the balance sheet total having declined by more than €7 billion. In 2015 and 2016, the bank issued several tranches of hybrid capital (Additional Tier 1 or AT1 capital) in addition to the maximum reservation of annual profits in order to comply with the Basel capital requirements. Prompted by the proposals published at the end of 2016 by the European Commission making a case for a specific application of the leverage ratio obligation for public development credit institutions within the Capital Requirements Regulation, and by the negotiations currently taking place in this regard, the bank decided in 2017 not to issue any further AT1 instruments for the time being. The amount of AT1 capital therefore remained at €320 million in 2017.

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 abovementioned Basel III capital requirements. In light of the minimum requirement for the leverage ratio of a provisional 3% announced at the time, it was decided not to distribute any dividends until the bank meets this requirement.

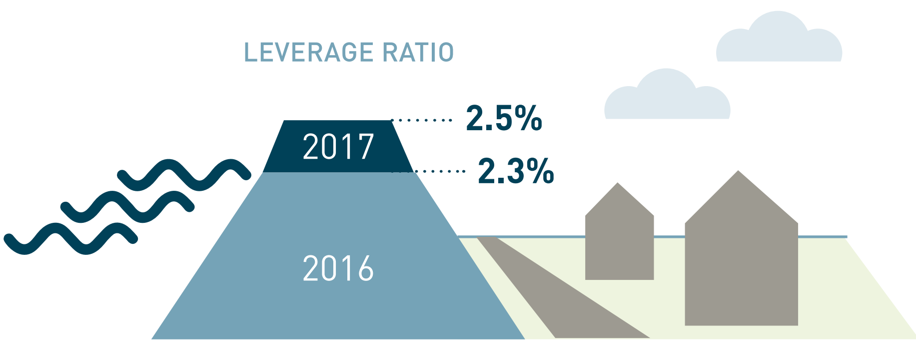
CET1 RATIO



COMPOSITION OF MINIMUM REQUIREMENT CET1 RATIO (7.625%)



LEVERAGE RATIO



Once approval had been obtained from the Supervisory Board, the Managing Board also decided to add the net profit for 2017 of €122.5 million in its entirety to the general reserves in 2017. Accordingly, no profits will be at the disposal of the General Meeting of Shareholders to distribute as dividend for the 2017 financial year. As soon as the final details of the leverage ratio requirement are known, the bank will review its dividend policy.

STRATEGY

In 2017, NWB Bank laid down a revised strategy for the medium term. A rewording of the strategy laid down in 2013, the revised strategic framework does not entail any essential changes in the bank's business model. The bank has also brought its mission and vision more closely into line with the public interest.

In liaison with the Supervisory Board, and in consultation with the management team and employees, the Managing Board intends to identify in as much detail as possible the challenges in the years ahead and how it is going to deal with them. Key requirements in this regard include the need to retain its high creditworthiness and status as a promotional bank, which, in accordance with European regulations, means that at least 90% of its lending must qualify as promotional lending. This is vital to the bank's business model. In that context it is also important that the bank refrains from pursuing profit maximisation, although a reasonable profit must be made to guarantee its continuity. A level of return on equity has been agreed with the shareholders. In this context the bank is continually seeking new opportunities to extend its role as a bank for the Dutch public sector.

The mission of NWB Bank is to help its clients create added value for society as a robust and sustainable bank for the public sector. The sustainable investment agenda is increasingly being made the focus of NWB Bank's mission. To a large extent, this is attributable to the bank's origins. Climate adaptation, climate mitigation and water purification are among the core tasks of water authorities, which also lead the way in the production of sustainable energy and the recovery of raw materials from waste water. Housing associations are also making investments to enhance sustainability. They own roughly one third of the housing stock in the Netherlands and, 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.

NWB Bank's ambition is to keep the public sector's financing costs as low as possible and to be available for its clients at all times. Ever since it was incorporated in 1954, NWB Bank has focused its strategy primarily on catering efficiently to the combined finance needs of clients in the public arena. A cost-conscious enterprise, NWB Bank uses its AAA/Aaa ratings to raise funds in an inexpensive and sustainable way. By responding to the changing requirements of its clients and by further diversifying its lending activities, the bank is increasing its social commitment as an independent promotional bank. The transition to a climate-neutral and circular economy will require major steps and investments in the Netherlands in the decades ahead. The energy transition is an area where, by providing low-cost financing, NWB Bank is eager to make a contribution. The bank will be able to benefit from the experience it has acquired with public-private partnership projects in this regard.

NWB Bank has a long tradition of financing water authorities, municipal and provincial authorities and institutions guaranteed by or affiliated to local and regional government bodies. The latter category includes housing associations and hospitals. The bank is constantly seeking new opportunities to extend its role as bank for the Dutch public sector and over the years has broadened its lending policy and product range to that end. For instance, NWB Bank has for several years been active in the area of financing public-private partnership (PPP) projects, it provides government-backed export financing, invests in NHG RMBS notes (based on mortgages with a National Mortgage Guarantee) and finances organisations such as water supply companies. In the past decade, the bank provided loans totalling more than €75 billion to support economic growth in the Netherlands. With total assets of approximately €90 billion, NWB Bank is a key player in the Dutch banking landscape.

When reformulating its strategy, NWB Bank took particular account of a number of trends in the public sector financing market. One such trend is the further development of independent capital market financing, a Europe-wide development in the run-up to a capital market union. Municipal authorities have had a joint MTN (Medium-Term Note) programme in place for some time now, and larger municipal authorities in particular are making fairly regular use of it. Another trend is that, when extending its role as a driver for public investments, the government is increasingly seeking to share risks with other parties and no longer automatically issues guarantees for the entire amount of financing required. The proposals concerning the creation of Invest-NL likewise show that the government is expanding its field of operations and is prepared to take on more risk, albeit jointly with other parties.

NWB Bank is keen to start collaboration with Invest-NL. The discussion concerning the establishment of a National Investment Bank has made it clear that the public and the government require public sector banks to play a more active role in the financing scheme for the public investment agenda. The bank believes it can contribute in this regard especially when it comes to creating added value in the area of promoting sustainability. Sustainable energy projects, for example, are generally characterised by a large capital investment and a lengthy period during which the investment must be recouped. NWB Bank is ideally placed to provide this type of long-term financing, which can be offered at relatively low costs.

Its committed, professional and targeted organisation supported by a highly effective management information system is an important pillar of the bank's strategy, as it provides for a relatively low cost level and a certain degree of flexibility. While it is true that diversification of the lending activities and the increasing demands being placed on banks will require further investments in knowledge, personnel and systems, with the number of employees standing at about 65, NWB Bank remains extremely cost-efficient.

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. 'Conscious, engaged and reliable' are and will remain, therefore, the core values of NWB Bank. The bank expects its employees to actively promote those core values in performing their duties. Moreover, NWB Bank depends almost entirely on the international money and capital markets for its funding requirements. Besides high credit ratings, which are reflected in the AAA/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.

SUPERVISION

The bank falls under the direct prudential 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 and 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 discussion also serves as a basis for determining the supervisory programme for the year ahead. For instance, as was the case for other banks, in the past year the supervisory programme included an audit of the bank's profitability.

NWB Bank updates what is known as the recovery plan every year. Every bank is required to draw up a recovery plan, which describes the possible measures that it can take to stay afloat in the event of a financial crisis. NWB Bank considers it very important to think thoroughly about its crisis management organisation and the recovery measures available to it to prepare for such extreme circumstances. The plan was updated last year, based on the findings of the annual SREP of the bank's capitalisation and liquidity position and on the ECB's recommendations.

Mission

As a robust and sustainable bank for the public sector, we help our clients to create added value for society.

Vision

Our ambition is to keep the public sector's financing costs as low as possible and to be available for our clients at all times.

Strategy

By responding to the changing requirements of our clients and by further diversifying our lending activities, we are increasing our social commitment as an independent promotional bank.
A cost-conscious organisation, we use our AAA/Aaa ratings to raise funds for the public sector in an inexpensive and sustainable way.

Core values

Conscious, engaged and reliable.

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, which is 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 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, MREL) to be drawn up.
In 2017, 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. The bank has recently been informed by the SRB that consideration is currently being given as to how any resolution planning can be implemented for promotional banks.

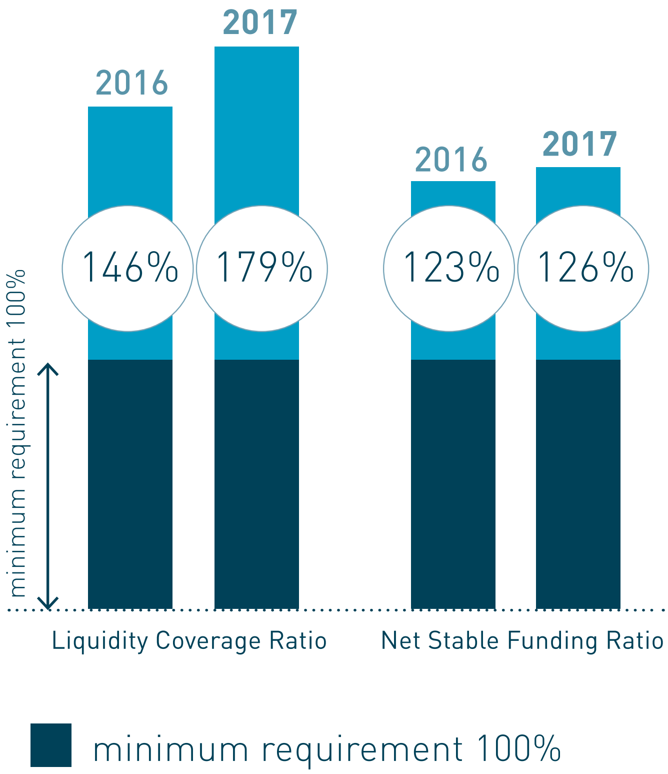
RISK MANAGEMENT

Risk management has a central role in the organisation (see also the note to the financial statements). 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, among other things, bonds issued or guaranteed by Dutch public authorities, bonds of international organisations and multilateral development banks, and covered bonds of Dutch banks. The bank has diversified its lending activities in recent years in order to respond to developments in the Dutch public domain. Examples include the financing of PPP projects and government-backed export loans. Decision-making on what is known as 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. Throughout 2017 and indeed throughout its history, NWB Bank has never suffered a loan loss.

The bank enters into derivative 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). In line with the European Market Infrastructure Regulation (EMIR regulation), the central clearing of 'standard' interest rate derivatives has been compulsory since 2016. Not only does the bank use central clearing for new derivatives contracts, it also transferred part of its existing portfolio for this purpose in 2017.

Two liquidity ratios have been introduced as part of CRR/CRD IV: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding ratio (NSFR). The LCR and NSFR turned out at 179% and 126%, respectively (2016: 146% and 123%), which is well above the statutory minimum of 100%. The minimum already applies to the LCR and expectations are that it will apply to the NSFR as from 2019. The internal liquidity requirements were in part determined by means of the Internal Liquidity Adequacy Assessment Process (ILAAP).



The Internal Capital Adequacy Assessment Process (ICAAP) is used to determine the minimum capital requirements. In this way, the bank's internal capital adequacy is assessed by type of risk (credit risk, market risk, operational risk and concentration risk). As such, ICAAP is a key activity of the bank's capital management. One component of the ICAAP involves conducting stress tests to test the robustness of capitalisation. NWB Bank will again participate in the ECB's stress test in 2018.

OPERATIONAL RISK MANAGEMENT

In 2017, the bank once again devoted a great deal of attention to the management of non-financial risks. In consultation with the ECB, it made the transition to a standardised approach for the management of operational risks for prudential supervision purposes. This transition has no impact on the level of capital to be maintained, but does require the bank's operational risk management to be conducted on a more formal basis. In the past year, the bank set up an independent ORM unit and added various disciplines to the Operational Risk Committee, making it a Non-Financial Risk Committee.

All risks were once again identified and listed, recorded centrally and translated into potential events. With the aid of what are known as risk & control self-assessments, all departments determined whether the existing processes and control measures are sufficient to mitigate all risks up to an acceptable level. The results of those assessments, the incident report, list of risk indicators and continuous monitoring of remedial action are summarised in the more comprehensive non-financial risk report. Based in part on these periodic reports, the Non-Financial Risk Committee monitors and discusses the development of operational risks so as to determine whether the risks are and will remain in line with the risk appetite adopted.

Specific attention was again paid to information security, and cybercrime in particular, in 2017. The bank imposes high requirements on its ICT infrastructure and has created a series of indicators to enable the detection of unusual and fraudulent actions in systems and infrastructure. The monitoring of the above aspects is largely an automated process.

The legislative and regulatory landscape has become more complex in recent years, as part of a trend that looks set to continue in the years ahead. The bank has a regulatory team to ensure adequate monitoring of new laws and regulations.

RISK GOVERNANCE

The bank's strategy places strict requirements on risk management as well as on the organisation and enforcement of adequate internal controls. NWB Bank has adopted an organisation-wide approach to risk management and supervision. As an important element of its supervisory role, the Supervisory Board, and in particular the Supervisory Board's Risk Committee, evaluates management of the risks associated with banking operations.

The Managing Board sets the risk management parameters. Within these parameters, the Asset & Liability committee (ALCO), the Credit Committee and the Non-Financial Risk Committee take decisions on the bank's risks.

In accordance with the Dutch Banking Code, the bank has determined its risk appetite level setting out the degree and areas of risk it is prepared to accept in achieving its strategic objectives. The risk appetite is approved by the Supervisory Board. In 2017, the bank further improved its risk appetite framework (RAF), clarifying the 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.

ORGANISATION

The organisation continued to grow over the past year and had more than 60 employees by the end of 2017. Attracting and retaining expert personnel is a key objective, and the Managing Board attaches great importance to maintaining the flat, professional and open organisational culture that so typifies the bank. All employees are encouraged in their professional development. In that context, several employees moved to other jobs within the organisation in the past year.

OUTLOOK FOR 2018

The outlook for the Dutch economy is favourable for 2018. There is broad support for economic growth which is being assisted by, among other things, higher levels of business investment, household consumption, investment in housing and exports. Government expenditure is also set to increase in 2018, which may result in NWB Bank's clients also increasing their levels of public investment. The bank intends to maintain its lending level in 2018, with due regard for further diversification.

The new long-term financing requirement is estimated to be around €8 to €10 billion. As in previous years, the bank's funding requirement will partially be fulfilled by issuing Water Bonds, and the bank also expects to issue new Social Bonds again. It will have to redeem approximately €10 billion in long-term financing in 2018.

The bank projects a further personnel increase in 2018. This is necessary in light of the further diversification of its lending activities and to safeguard the current level of professionalism and effectiveness. Expectations are that operating costs will increase further in 2018, but the bank will nevertheless remain a very cost-efficient organisation.
In addition to income tax, the bank is required to remit approximately €18 million in bank tax. It will also make a further contribution to the Single Resolution Fund in 2018.

Against the background of the ECB's announcement that it will phase out its quantitative easing policy, it is expected that funding rates in the money market (which were particularly favourable in 2017) will gradually normalise in 2018. It is therefore anticipated that the bank's net profit in 2018 will come out at a lower level than in 2017.

The Hague, 15 March 2018

Managing Board

Lidwin van Velden
Frenk van der Vliet

4

REPORT OF THE SUPERVISORY BOARD

4. REPORT OF THE SUPERVISORY BOARD

FROM THE CHAIR OF THE SUPERVISORY BOARD

The Supervisory Board is of the opinion that NWB Bank has been successful staying on track over the past year against a background of exceptionally low interest rates and market players competing in the quest for returns. The bank itself is relatively insensitive to changes in the interest rate, but has benefited from its good standing on the money market and capital market. In addition to the Green Bonds issued in previous years, the bank last year issued its first successful Social Bond, proactively responding to the increased need among institutional investors for socially responsible investment opportunities.

The bank is able to raise funds inexpensively and thus provide its clients with financing at low costs. NWB Bank has grown substantially in recent decades and now occupies fifth place among Dutch banks, with a balance sheet total of nearly €90 billion. The bank finances a wider range of clients than the water authorities alone, providing about one third of the financing required by the public sector and semi-public sector.

According to the Supervisory Board, the strategy enables the bank to contribute towards a robust public infrastructure in the Netherlands which provides protection against flooding, ensures good water quality and an adequate stock of social housing. The challenges pertaining to water remain considerable though, and the level of investment required is huge. Climate change is causing the sea level to rise, soil subsidence, an increased volume of water to flow through our rivers, as well as frequent instances of extreme rainfall. Existing housing stock also needs to be made more sustainable to ensure compliance with the agreements made in the Climate Agreement.

The bank feels that it is incumbent on it to contribute to solutions for these shared problems. Whilst retaining its unique character, the bank is open to making an appropriate contribution to the sustainable energy transition lying in store for the Netherlands. The will is there, as are the framework conditions. To meet those conditions, the various parties involved - public authorities, companies, institutional investors - will have to cooperate even more closely. The Supervisory Board endorses the bank's ambition to use the experience now gained with effective Public-Private Partnership (PPP) projects - a market in which NWB Bank has operated successfully since 2013 - for the financing of sustainable energy programmes as well.

Given the unprecedented level of investment expected to be required, a substantial amount of risk capital will have to be provided by private parties, such as institutional investors. In this context, we welcome the government's plan to set up Invest-NL. This organisation will perform an important role in the development of major social and economic projects. The provision of guarantees or risk-bearing capital could also help to free up investments that have so far remained unavailable. The bank is prepared in principle to contribute in the area where it provides added value: furnishing low-cost, long-term senior financing. The requirement, in line with European regulations, that at least 90% of NWB Bank's lending must qualify as promotional lending if it is to continue to be categorised as a promotional bank will therefore remain in place.

The Supervisory Board has every reason to be confident about the bank's future. The business model is convincing proof of the bank's added value. The Supervisory Board liaised closely with shareholders during the year and is particularly grateful to the Limburg Water Authority in Roermond for the reception it received. This gave the Supervisory Board a vivid illustration of the many projects in progress in the area of water safety and water quality.

The Supervisory Board would also like to thank Menno Snel, whose enthusiastic contributions put NWB Bank on the map during his unexpectedly short term of office as Chair of the Managing Board. The Supervisory Board respects his decision to continue serving the public good as State Secretary for Finance. The Supervisory Board wishes to express its appreciation for current Managing Board members Lidwin van Velden and Frenk van der Vliet, who did outstanding work when they took on Menno's duties following his departure. This has confirmed the Supervisory Board's belief that by nominating Lidwin van Velden as the new Chair of the Managing Board it has made the right decision. The Supervisory Board wishes to thank all those involved in the organisation for their dedicated efforts in the financial year.

Age Bakker

SUPERVISION

Report on the Supervisory Board's oversight duties

The Supervisory Board held ten meetings in the reporting period, including seven regular meetings, one strategy session and two non-regular consultations connected with the succession procedure for the Chair of the Managing Board.

The Supervisory Board performs its duties in accordance with the Supervisory Board Charter. The Charter was updated at the end of 2017 in response to the publication of the revised Dutch Corporate Governance Code and new guidelines of the European Banking Association (EBA) and the ECB.

Regular agenda items discussed during the Supervisory Board meetings included financial market developments, clients, political and economic developments, lending activities and funding, balance sheet developments and developments in the financial result, regulatory changes and developments in ECB and DNB supervision, risk management, the external auditor's report, strategic policy, the dividend and reserve policy, the General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders, the annual report and the half-year report, the Policy Memorandum, the budget and the profit forecast. The Supervisory Board also regularly addressed corporate governance issues, compliance with the Insider Regulations, lifelong learning, the Supervisory Board's and Managing Board's self-assessment, 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, jointly with the national supervisory authority DNB, supervised NWB Bank through an implementing body, the Joint Supervisory Team (JST). The Chair of the Managing Board had regular meetings with the JST.

The ICAAP and ILAAP and the accompanying Capital Adequacy Statement (CAS) and Liquidity Adequacy Statement (LAS), the SREP assessment, the Recovery

Plan update, the Pillar 2 capital requirement and guidance and the assessment of the Pillar 3 disclosure are regular features of the Supervisory Board's meetings with the Managing Board. The regular reporting sessions have once again underlined that the bank is highly capitalised.

The results of the thematic, sector-wide studies conducted by the JST, including a study into Interest Rate Risk in the Banking Book (IRRBB), Thematic review on profitability and EMIR implementation/Collateral Management deep dive were also discussed with the Supervisory Board.

ECB supervision is a recurring item on the Supervisory Board's agenda. NWB Bank again met the comprehensive supervision requirements in a professional manner this year. Leaving aside its own efforts, the bank's supervision costs have risen further to 15% of the operating costs. The ECB findings and the follow-up were discussed at the Supervisory Board's meetings. The Supervisory Board has ascertained that the processes and plans adopted are consistent with the solidity pursued by the bank and support the bank's business model.

Risk management

In 2017, as part of the annual assessment of capital adequacy and solvency management, the Supervisory Board discussed and approved the ICAAP (including CAS) and the 2017 ILAAP, as well as the updated Risk Appetite Framework (RAF). As part of the RAF, the Risk Appetite Statement (RAS) is intended to ensure alignment with the recovery triggers and the risk appetite as defined in the latest version of NWB Bank's Recovery Plan. Other elements of the RAF include risk governance, capital management and the translation of the RAS into risk parameters and internal limits. There is a clear relationship between the RAS and the annual assessment of the ICAAP.

The RAF (including the RAS) was discussed at length in Risk Committee meetings and subsequently approved by the Supervisory Board. The risk appetite and the risk profile have largely remained consistently low. However, non-financial risks such as information security and cybercrime risks received greater attention.

NWB Bank updated the Recovery Plan and submitted it to the ECB/DNB at the end of 2017. The plan, which sets out the bank's recovery procedure following situations of severe stress, includes triggers for action and potential escalation to the crisis management team. The changes proposed by the Managing Board were discussed during the Risk Committee meeting and subsequently approved during the Supervisory Board meeting.

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, with the aid of reports, by the Audit and Risk Committees. In addition to the continued attention paid to tightening up the management of financial risks, this year, non-financial risks in the areas of cybercrime and compliance were addressed specifically. Much attention was also devoted to refining the design of operational risk management, including by appointing an Operational Risk Officer and setting up a Non-Financial Risk Committee.

As a result, in common with the Managing Board, the Supervisory Board is of the view that the internal risk management and control systems were effective. These systems provide reasonable assurance that NWB Bank's financial reports contain no material misstatements.

Capital

In 2015 and 2016, NWB Bank raised hybrid capital (AT1 capital) with a view to meeting an expected leverage ratio obligation of 3% by 2018 (originally). In 2017, the bank's leverage ratio rose from 2.3% to 2.5% (including the profit of the current financial year). At the end of 2016, the European Commission published proposed amendments to the Capital Requirements Regulations (CRR/CRD IV). The amendments also included a change in the method of calculating the leverage ratio for public development credit institutions. Although the bank believes that this definition affirms its business model, greater clarity on precisely how the leverage ratio requirement is to be implemented and on whether the bank will qualify for specific treatment is not expected before the second half of 2018. Due to the proposed calculation method, NWB Bank's leverage ratio would amply exceed the level of the minimum requirement. Pending the European Commission's proposals, NWB Bank has therefore tentatively decided not to issue any further hybrid capital and to continue its policy of reserving the full amount of the annual result.

Remuneration and policy governing remuneration of the Managing Board

In early 2017, the Supervisory Board adopted the 2013 long-term variable remuneration and the 2016 variable remuneration of the Managing Board members as well as their performance contracts for 2017 in accordance with the remuneration policy adopted by the General Meeting.

Recruitment and selection

In 2017, the Supervisory Board recruited two new candidates as Supervisory Board members who will succeed Berend-Jan baron van Voorst tot Voorst and Albertine van Vliet-Kuiper. During the Annual General Meeting held on 20 April 2017, Frida van den Maagdenberg was appointed to fill the vacancy arising from the retirement from office of Berend-Jan baron van Voorst tot Voorst. During an Extraordinary General Meeting of Shareholders held on 17 August 2017, Toon van der Klugt was nominated and appointed Supervisory Board member, succeeding Albertine van Vliet-Kuiper. He was a candidate for a seat on the Supervisory Board subject to a right of recommendation of the shareholder water authorities (in accordance with Article 18.3 of the Articles of Association).

The Supervisory Board members, particularly the members of the Remuneration and Appointment Committee, were also closely involved in the recruitment and selection procedures for the new Chair of the Managing Board following Menno Snel's departure on 25 October 2017 (owing to his having been appointed State Secretary for Finance). The Supervisory Board has since disclosed its intention to nominate the current member of the Managing Board Finance & Risk and deputy Chair Lidwin van Velden as the new Chair of the Managing Board, subject to the consent of the supervisory authorities and shareholders. This has created a vacancy for a new Managing Board member. The Remuneration and Appointment Committee has already started the process for filling this vacancy.

Human Resources

The bank has had a Works Council since 2016. Both the Chair of the Supervisory Board and the Chair of the Remuneration and Appointment Committee attended a Works Council Meeting in 2017.

Charters

In following up on the revised Dutch Corporate Governance Code, the EBA Guidelines on Internal Governance of September 2017 and the BIS Guidelines on Corporate Governance Principles for Banks of July 2015, NWB Bank reviewed and, where necessary, amended its existing charters for the Supervisory Board, the Managing Board and the Audit, Risk, and Remuneration and Appointment Committees.

NWB Bank is thus operating in accordance with the Dutch Corporate Governance Code as amended in 2017. The key amendments to the Supervisory Board Charter concern the following subjects: conflicts of interest, references to the Insider Regulations and the inclusion of internal pay ratios (as part of long-term value creation). New points requiring attention have also been included in the area of corporate culture, strategy and remuneration policy in the interests of the bank's long-term value creation. In addition, the Supervisory Board will draw up a diversity policy governing the composition of the Managing Board and the Supervisory Board.

The amended charters of the Supervisory Board, Managing Board and the Audit, Risk, and Remuneration and Appointment Committees are available through NWB Bank's website.

Long-term value creation

The Supervisory Board supervises the Managing Board's implementation of the long-term value creation strategy. Alongside the careful consideration given to stakeholders' interests, long-term sustainability is the key element taken into account in the determination of the strategy and when decisions are made. The Supervisory Board regularly discusses the strategy and the associated risks, taking account of the fact that long-term value creation may require awareness and anticipation of developments in new technologies and changes to be made in the business model. That is why due consideration was given to defining the responsibilities for long-term value creation, risk management, effective governance and supervision, remuneration and the relationship with (the general meeting of) shareholders and stakeholders.

Achievement of business targets

The policy programme is discussed with the Managing Board every year. In early 2017, 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. Those targets included an evaluation of NWB Bank's strategy, retention of the credit ratings equal to that of the Dutch State, achievement of the benchmark return, refinement of credit risk management and operational risk management, achievement of the lending volume target, consolidation of the interest margin, as well as achievement of the CSR objectives. The Managing Board largely achieved their 2017 targets.

Strategy and risks

In September 2017, as in previous years, the Managing Board and the Supervisory Board discussed NWB Bank's strategy during a separate session. This included a fruitful discussion with the Managing Board on, among other things, market developments and market positioning, the aspirations and challenges for the various client groups, as well as political and administrative developments. The strategy session prompted a substantive discussion of risk appetite and client satisfaction. The Supervisory Board and the Managing Board paid particular attention to the bank's mission, vision and values and formulated basic principles to ensure that the business model works as intended. With risk appetite, internal organisation and the regulatory framework also taken into account, this formed the basis for a rewording of the strategy. The findings produced by the strategy session were fleshed out in a new multi-year strategic framework (2018-2021), which was adopted by the Supervisory Board.

The Audit and Risk Committees focus primarily on monitoring financial developments at the bank and the effectiveness of its internal risk management system. The chairs of the audit and risk committees report directly to the plenary Board using input from meeting reports.

Financial reporting

The internal quarterly report has been designed so as to ensure a 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 also includes a description of the Managing Board's highlights, setting out its views on the bank's financial and non-financial results and the challenges facing it.

Relationship with shareholders

One informal consultation took place with the shareholders of NWB Bank in 2017. The topics discussed included current developments at NWB Bank relating to results, laws and regulations and the dividend policy in conjunction with the leverage ratio obligation. In addition, the shareholders were updated on the developments regarding Invest-NL and the bank's strategy, including the further diversification of the lending activities.

CSR

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. For instance, NWB Bank strengthened its position as an issuer of Green Bonds (Water Bonds) in 2017 and, in May, launched its first Social Bond (Affordable Housing Bond). The proceeds from the Affordable Housing Bond are earmarked for the financing of social housing. By issuing Green and Social Bonds, NWB Bank re-emphasises its role as a robust and sustainable financial partner of the Dutch public sector. For a report on NWB Bank's CSR policy, see page 73 of this annual report.

COMMITTEE REPORTS

AUDIT AND RISK COMMITTEES

In the year under review, the Audit and Risk Committees met six times with the Managing Board, with the internal auditor and the external auditor being present. In 2017, it was decided that, in addition to the internal auditor, the head of Finance & Control should also be invited to Audit Committee meetings on a regular basis. The head of Risk Management receives regular invitations to Risk Committee meetings.

Since August 2016, based partly on an ECB recommendation, the Audit and Risk Committee has been split up 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. Moreover, the Supervisory Board's plenary meeting deals specifically with non-financial risks. The committees operate in accordance with the Audit Committee Charter and Risk Committee Charter. The Audit Committee also held separate meetings with the internal auditor and with the external auditor. The Chair of the Audit Committee holds advance meetings both with the internal auditor and with the external auditor ahead of the committee meetings.

During the year under review, the Audit Committee paid particular attention to the impact of the low interest rate levels on the money and capital markets, the beneficial effects thereof on the bank's financing conditions and the resultant stronger liquidity buffer. A range was agreed for that stronger liquidity buffer. The CVA/DVA accounting calculation and the implementation of a new valuation tool for financial instruments were other subjects to receive attention. The European decision-making process with regard to the regulations concerning the leverage ratio and its impact on the bank's capital management was the subject of much debate. Other regular subjects included money and capital market developments, the quarterly results, the half-year and annual figures, the dividend and reserve policy, funding, fund transfer pricing, ICT, the budget, regulatory reporting and the external and internal auditors' reports. The Audit Committee Charter and Internal Audit Charter were re-assessed and amended where necessary, and the auditor's report for the 2016 reporting year and the first half year of 2017 were dealt with. The external auditor's findings on financial developments, financial reporting and the audit of the financial statements were also discussed.

The Risk Committee devoted specific attention to operational risk management (including the Non-Financial Risk Committee Charter and the Operational Risk Policy), compliance, payment transaction monitoring, interest rate risk management, counterparty risk management and collateral management, cybercrime and credit risk. Regular subjects included RAF/RAS, ICAAP/ILAAP, various stress scenarios (including ECB), the SREP decision, recovery plan studies and ECB supervision findings, as well as the reports of the external and internal auditors. The Risk Committee Charter was also re-assessed and amended where necessary.

The Risk Committee meetings were also used for presentations on the credit assessment process, operational risk, compliance risk and interest rate risk management. In 2017, the Audit and Risk Committees conducted a self-assessment using an online tool, discussing the results at length during a subsequent closed meeting. The points requiring attention that emerged in that meeting will be followed up in the near future.

REMUNERATION AND APPOINTMENT COMMITTEE

The Remuneration and Appointment Committee met five times in the year under review. The topics discussed were the remuneration of the Managing Board, a comparison of the remuneration of the Managing Board versus staff, the long-term variable remuneration of the Managing Board for 2013, their variable remuneration for 2016, the proportionality principle pertaining to the remuneration policy, the Managing Board performance contracts for 2017, the 2016 remuneration report, the 2017 Supervisory Board remuneration proposal, the conversion of the variable remuneration of staff into a fixed allowance, the appointment and reappointment of Supervisory Board members and Managing Board members, HRM policy, implementation of the EBA and ECB's Guide to fit and proper assessments and the new Corporate Governance Code in the Charter, the Managing Board assessment, the Supervisory Board self-assessment and lifelong learning for 2017.

The Remuneration and Appointment Committee conducts interviews every year with Managing Board members to discuss their individual performance as Managing Board members and their joint performance as NWB Bank's Managing Board. Feedback on those interviews is given by the plenary Board at a closed meeting.

Members of the Remuneration and Appointment Committee were also closely involved in the recruitment and selection procedures for two new Supervisory Board members and the new Chair of the Managing Board.

The Remuneration and Appointment Committee operates in accordance with the Remuneration and Appointment Committee Charter, which was assessed this year and amended where necessary.

REMUNERATION POLICY

Further details of the bank's remuneration policy are provided in the Remuneration Report on page 100 of this annual report.

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 12 and 13 of this annual report. The male-female ratio on the Managing Board now stands at 50%, which means the bank meets the statutory provision in respect of a balanced male-female ratio of least 30% men and at least 30% women.

Upon the departure of Menno Snel as Chair of NWB Bank's Managing Board, Lidwin van Velden and Frenk van der Vliet assumed his duties jointly. During the period in which two Managing Board members constituted the Managing Board, the Chair of the Supervisory Board held regular coordination meetings with Managing Board members. The proposed appointment of the present member of the Managing Board Finance & Risk and acting Chair, Lidwin van Velden, as Chair of the Managing Board has created a vacancy for a new Managing Board member.

Composition of the Supervisory Board – details

Details of the members of the Supervisory Board can be found on pages 14 to 17 inclusive of this annual 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, the existence within the Supervisory Board of the required competencies, as well as the desirable diversity, expertise and background of the Supervisory Directors. They must be aware of and able to assess national and international social, economic, political and other developments of relevance to NWB Bank.

The Supervisory Board comprises seven members of whom five are men and two women. At 71% to 29%, the male-female ratio very nearly meets the minimum target. 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, with due regard for factors such as age, gender, expertise and social background. The current composition of the Supervisory Board is considered to be balanced, diverse and representative of the required expertise. 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 Toon van der Klugt, have ample experience in public administration and government policy and have networks in government circles. Frida van den Maagdenberg has general experience with administration in the semi-public sector and knowledge of finance and ICT. A balanced and diverse composition of the Supervisory Board is thus guaranteed.

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 ensure a balanced representation of the knowledge and experience required of NWB Bank's Supervisory Board.

COMPOSITION OF THE COMMITTEES

Audit Committee and Risk Committee

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. The Risk Committee is comprised of the same members, with Petra van Hoeken as Chair.

The Supervisory Board members assessed the performance of the separate Audit and Risk Committees. After a year operating as separate committees, both give the present arrangement a positive rating. A few issues requiring attention raised include a rotating order of committee meetings depending on the urgency of the subjects, a more appropriate substantive separation of subjects and explicit attention to non-financial subjects during plenary Board meetings.

The internal auditor attends the meetings of both committees. The external auditor attends the Audit Committee meetings and at least one Risk Committee meeting each year. In practice, the external auditor is present at all Risk Committee meetings.

Remuneration and Appointment Committee

The members of the Remuneration and Appointment Committee are Peter Glas (Chair), Age Bakker, Frida van den Maagdenberg and Toon van der Klugt. All members have sufficient knowledge and experience of remuneration policies and appointments, gained from their different backgrounds. The Managing Board member with HRM in his or her portfolio attends the Committee's 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. As in 2016, in 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 of his duties;
- the Supervisory Board's various roles as a supervisor, as the Managing Board's 'employer' and as an adviser;
- the interaction within the Supervisory Board, between the Supervisory Board and the Managing Board and between the Supervisory Board and third parties/stakeholders;
- strategic and operational challenges.

Particular attention was paid to new governance topics such as diversity, long-term value creation and the desired corporate culture.

Findings that emerged from the self-assessment report included the fact that the Supervisory Board is satisfied with its present set-up and composition and has ample and up-to-date knowledge at its disposal. The balance between its monitoring and advisory roles could be improved, as this would enable the Supervisory Board to be used more often as a sounding board and sparring partner. The Supervisory Board interacts effectively with the Managing Board.

In line with the past year's outcomes, the Supervisory Board is focusing on appropriately allocating its efforts towards the short- and long-term strategies, acknowledging that the long-term strategy requires more specific attention. It also requested that greater attention be paid to engagement with both the development and the progress of the 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 internal organisation, the Supervisory Board believes that greater attention could be paid to HRM, operations, commerce and ICT-related topics. Other areas requiring attention mentioned include corporate culture, diversity policy, client relations, supervisory regulations, non-financial matters and the Supervisory Board's ability to adhere to its role. The Supervisory Board will place the abovementioned points for attention on the agenda for follow-up action during the year. The Chair of the Supervisory Board also conducted interviews with individual members of the Supervisory Board.

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 2017 on such themes as Green and Social Bonds, cybercrime, credit risk, operational risk, compliance risk and interest rate risk. In addition, individual Supervisory Board members attend external courses at their own request to fill gaps in expertise and experience. The effectiveness of lifelong learning initiatives is assessed annually. Prior to their appointment, proposed new Supervisory Board members are required to 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 its composition is such that its members are able to operate critically and independently of one another and of the Managing Board. It is of the opinion, moreover, that best practice provisions 2.1.7 to 2.1.9 inclusive of the Dutch Corporate Governance Code have been complied with. In this context, it should be noted that one Supervisory

Board member, Petra van Hoeken, is a member of the Managing Board of Rabobank, with which NWB Bank maintains a long-standing and significant relationship. The overall profile for the composition and appointment of Supervisory Board members sets requirements in this respect. In addition to meeting those requirements, new members are required to 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 consulting external experts if warranted by the fulfilment of its duties. For instance, if and when needed, the Supervisory Board requests information from NWB Bank's external auditor. The Supervisory Board engaged external agencies in 2017 to recruit a new Chair of the Managing Board as well as new Supervisory Board members.
The Supervisory Board consults internal and external experts on lifelong learning courses and obtains relevant information by attending Works Council meetings.

Conflicts of interest

The members of the Supervisory Board and Managing Board have informed NWB Bank of all other relevant positions they hold. Where a potential conflict of interest could have arisen because of a Supervisory Board member's principal position, the member in question did not participate in the relevant discussions and decision-making processes.

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 Audit Committee meetings.
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. In practice, the external auditor also attended all Risk Committee meetings. Furthermore, a separate consultation took place between the Audit Committee, the Risk Committee, the head of the iad and the external auditor to discuss specific points requiring attention as well as mutual relationships.

As in 2016, as the external auditor, EY audited NWB Bank's financial statements.

ORGANISATIONAL MATTERS

Reappointment/appointment of Managing and Supervisory Board members

The following appointments and reappointments were approved during the 20 April 2017 General Meeting: the reappointment of Lidwin van Velden as Managing Board member with effect from 1 January 2018, the appointment of Frida van den Maagdenberg as Supervisory Board member and the reappointment of Maurice Oostendorp as member and deputy Chair of the Supervisory Board.

Toon van der Klugt was appointed Supervisory Board member during the 17 August 2017 Extraordinary General Meeting, succeeding Albertine van Vliet-Kuiper as a Supervisory Board member with a seat subject to a right of recommendation of the 'shareholder water authorities'.

Attendance

The Supervisory Board and its committees recorded an attendance rate of 94%.

A word of thanks

In 2017, 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, 15 March 2018

Supervisory Board

Age Bakker
Maurice Oostendorp
Peter Glas
Petra van Hoeken
Toon van der Klugt
Frida van den Maagdenberg
Manfred Schepers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CORPORATE GOVERNANCE

5. 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 taking account of 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 EBA Guidelines on internal governance, the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders and the BIS Guidelines Corporate Governance principles for banks.

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. Governance has to do with management and control, responsibility, and monitoring and accountability. 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. In addition, a number of sections of the Dutch 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.

The Dutch Corporate Governance Code is normally applicable to Dutch listed companies. As NWB Bank is not a listed company, it is not required by law to apply the Dutch Corporate Governance Code. However, the bank has elected to apply the code nevertheless, 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 application of the Dutch Corporate Governance Code is also in line with the State Participations Policy Memorandum (Nota Deelnemingsbeleid). 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 and has no formalised policy stating that nominated Managing Board members and Supervisory Board members should be present during the General Meeting at which their nominations are voted on. 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 the 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 principle of and best practice provisions relating to the provision of information and details to the Annual General Meeting has not been formalised either. Given the relatively modest level of variable remuneration, no scenario analyses were performed.

In 2017, NWB Bank reassessed the revised Dutch Corporate Governance Code and amended, where necessary, the Managing Board Charter, Supervisory Board Charter, Audit Committee Charter, Risk Committee Charter, Remuneration & Appointment Committee Charter and Internal Audit Charter. The bank also made a number of amendments to these charters based on the revised EBA Guidelines on internal governance and Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders.

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 for the structure of the Managing Board and Supervisory Board. 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 and applies to Dutch banks. The Code is designed to make a major contribution to public trust in banks. Its principles 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;
- prudent, restrained and sustainable remuneration policies.

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). 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 ON OTHER FOCUS AREAS

The following paragraphs address a number of focus areas with regard to corporate governance. They also address whether and, if so, in what way further steps have been taken in the 2017 reporting period compared with 2016.

Works Council

NWB Bank has a Works Council. The Works Council operates in accordance with the Works Council Regulations, which include rules on its 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 addition to those meetings, there were two consultative meetings between the OR and a Managing Board member in 2017. The HRM department was also represented at those consultative meetings. The Chair of the Supervisory Board and the Chair of the Remuneration and Appointment Committee attended one consultative meeting. The Consultative Meeting regulations containing rules on organising and conducting consultative meetings were laid down in 2017.

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 play an important role in the bank's control mechanism. 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.

NWB Bank's culture is characterised by professionalism, engagement and openness. Matters that received attention in 2017 included knowledge transfer through 'brown bag sessions', which were organised by the Young Professionals. Those sessions involve an employee or a guest speaker giving a presentation on a topical and interesting subject. For instance, Peter Glas (Water Reeve of De Dommel Water Authority) and Manon Leijten (Secretary-General of the Ministry of Finance) assisted with a brown bag session.

Employees were also reminded in 2017 that they should maintain a critical attitude towards each other. For example, NWB Bank's amended assessment system now specifies that managers should ask colleagues for input when assessing employees. Employees can also collect input for their assessments. This helps to give them a better insight into their own performance.

Long-term value creation

NWB 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. This way, the bank increases its social engagement as a promotional bank. A cost-conscious enterprise, NWB Bank uses its AAA/Aaa ratings to raise funds for the public sector in an inexpensive and sustainable way.

One example of the ways in which NWB Bank aims to create value in the long term is by actively seeking collaboration with Invest-NL. The discussion concerning the establishment of a National Investment Bank made clear that public sector banks are expected to play a more active role in the financing scheme for the public investment agenda. Invest-NL's planned activities are expressly viewed as complementary to those of NWB Bank, and the bank is therefore keen to share its financial banking knowledge and expertise. Furthermore, any additional financing options can be arranged via the NWB Bank balance sheet. Specifically, NWB Bank is discussing broadening options pertaining to long-term export financing with the Ministry of Finance and other parties.

Putting the client's interests first

As a promotional bank, NWB Bank is a major player in financial services 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, 'conscious, engaged and reliable' 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 that gap, the bank organises educational client events, employees participate in seminars as speakers and client visits are made to individual clients.

Compliance and integrity

NWB Bank has assigned the compliance function to its legal & compliance department. The compliance function aims to promote, monitor and ensure compliance with existing laws and regulations as well as with the internal procedures and rules of conduct that are relevant to the organisation's integrity and associated reputation. The compliance function tasks are laid down in the Compliance Charter.

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

SUPERVISORY BOARD

General

The Supervisory Board performs its duties in accordance with the Supervisory Board Charter. This Charter contains rules governing the Supervisory Board's composition, division of duties among its members and its working methods. It also contains provisions governing conflicts of interest and the Supervisory Board's dealings with the Managing Board and shareholders.

COMMITTEES

The Supervisory Board has composed an Audit Committee, Risk Committee, and Remuneration and Appointment Committee from among its members.

Audit Committee and Risk Committee

The remit of the Audit Committee and Risk Committee 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, preparing the appointment procedures for the Supervisory and Managing Boards, periodically assessing the individual performance of the Supervisory Board and Managing Board members, monitoring Managing Board policy in respect of the selection criteria and appointment procedure for senior management, evaluating the remuneration policy, monitoring senior management remuneration directly (including the managerial audit positions at the bank) and preparing the remuneration report. The Committee works 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.

In 2017, gender balance in the composition of Supervisory Board and Managing Board of at least 30% male and at least 30% female members on each board was once more given a statutory basis. The ratio of men to women on the Supervisory Board is currently 71% to 29%. NWB Bank has therefore not met the target figure for women, albeit by a very narrow margin. In the event of a vacancy needing to be filled on the Supervisory Board, attempts will be made to ensure that the target figure is met.

MANAGING BOARD

NWB Bank is managed by the Managing Board. The General Meeting of Shareholders appoints Managing Board members, nominated by the Supervisory Board, for a four-year period.

The Managing Board comprises two members. In October 2017, after having been appointed as State Secretary for Finance in the third Rutte government, Menno Snel resigned as Chair of the NWB Managing Board. From that point onwards, the duties of the

Chair of the Managing Board were assumed jointly by Lidwin van Velden and Frenk van der Vliet, with Lidwin van Velden taking on the role of acting Chair of the Managing Board. On 8 February 2018, the Supervisory Board announced in a press release that it would be nominating Lidwin van Velden as the new Chair of the Managing Board. The nomination will be submitted to the General Meeting of Shareholders for a decision to be made and is subject to the approval of the supervisory authorities. This nomination has created a vacancy on the Managing Board, and the Supervisory Board has already begun the search for a new Managing Board member. The portfolio of operations for which the members of the Managing Board are responsible in their current roles are stated on the website and on pages 12 and 13 of this annual report.

The Managing Board aims to achieve a diverse and balanced composition among its members. The current ratio of men to women on the Managing Board is 50% to 50%. Hence, NWB Bank meets the statutory target figure for a balanced distribution of seats between men and women on the Managing Board of at least 30% women and at least 30% men. In addition, an individual profile is drawn up for each vacancy that arises on the Managing Board. Details specified in such profiles include age, gender, expertise and social background. As far as expertise is concerned, each Managing Board member must possess knowledge of, among other things, the financial sector in general and the banking sector in particular, the bank's social role and the interests of all stakeholders.

Appointment and composition

The Managing Board's procedures are set out in the Managing Board Charter. The Charter contains rules relating to the division of the Managing Board's duties, its working methods and its decision-making process. 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.

Lifelong learning

NWB Bank considers lifelong learning to be vital Against this background, in 2017 presentations were held on the topics of Green and Social Bonds and security management. Cybersecurity was among the subjects discussed during the presentation on security management. In addition, the Managing Board members attended sessions devoted to particular themes, including those in the area of renewable energy projects, FinTech, repurchase agreements (repo) and the financing of renewable energy projects and NHG mortgages.

Future new members of the Supervisory and Managing Boards must attend an induction programme addressing, among other things, compliance, integrity, IT infrastructure and risk management.

AUDIT

NWB Bank has assigned the internal audit function to its internal audit department (iad). The iad, which operates independently within the bank, carefully, expertly and objectively audits and tests the management of risks associated with the bank's business activities. The iad also issues recommendations on new developments or new systems to be developed. The iad operates in accordance with the Internal Audit Charter, which contains rules relating to the iad's mission, remit, corporate governance, independence and objectiveness, and expertise and integrity.

The head of the iad reports primarily to 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 2017, in line with the Dutch Banking Code, one trilateral consultation took place with the external auditor and the DNB and ECB supervisory authorities. During these consultations, views are exchanged about risk analysis, findings and the audit plan.

At the Managing Board's request, the head of the iad may participate as a non-voting member in steering committees on strategically important projects. The iad also provides the organisation with additional assurance in reporting on Corporate Social Responsibility (CSR). In the process, the iad establishes whether relevant assertions and achievements cited in the CSR report are verifiable. CSR is an integral part of NWB Bank's business operations. This includes transparent accountability in respect of CSR performance.

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. Every five years, the General Meeting evaluates the Managing Board's remuneration policy and subsequently adopts it.

In 2017, given the public debate about the desirability of variable remuneration schemes and the fact that NWB Bank is a promotional bank, a decision was made to convert the variable remuneration for employees into fixed remuneration in 2018. Further details of the remuneration policy for the Managing Board and employees is provided in the Remuneration Report included in this annual report.

OTHER CORPORATE GOVERNANCE ASPECTS

In control statement

The Managing Board is of the opinion that, in the year under review, the internal risk controls and systems were effective and that the Report of the Managing Board provides sufficient insight into their functioning. There are no material risks and uncertainties of relevance to the going concern expectation of the company for a period of twelve months following the drawing up of the report. The internal risk controls and systems provide reasonable assurance that NWB Bank's financial reports are free from material misstatements. The risk governance section of the Report of the Managing Board and the risk management section of the financial statements contain a substantiation of the in control statement.

Statement of the Managing Board

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. Based on the current state of affairs, the financial statements were justifiably drawn up on a going concern basis. The Managing Board also states that, to the best of its knowledge, the Report of the Managing Board 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, 15 March 2018

Managing Board

Lidwin van Velden
Frenk van der Vliet

6

CORPORATE SOCIAL RESPONSIBILITY

6. CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION BY THE MANAGING BOARD

As a promotional bank, NWB Bank's interests and values differ from those of strictly commercial parties. In addition to ensuring a strong financial position and efficient business operations, NWB Bank focuses expressly on creating social value. It seeks to contribute to a stable and robust financial sector, which in turn contributes to an economy that serves mankind whilst causing the least possible harm to the environment. NWB Bank achieves this by providing financing to its clients on the most favourable terms possible to enable them to keep their financing costs as low as possible.

Its excellent creditworthiness, reflected in the highest ratings AAA/Aaa (Standard & Poor's/Moody's), equal to those of the Dutch State, enable NWB Bank to keep the financing costs at so low a level for its clients. In 2017, NWB Bank again found itself in the top ten of the world's safest banks, taking sixth place to be precise.[1] Thanks to its excellent credit ratings, the bank is able to raise funds inexpensively in the international money and capital markets. The bank passes this benefit on to its clients, helping them in achieving their ambitions which include establishing a climate-neutral and circular economy, affordable social housing and affordable healthcare costs.

The energy transition is a fascinating challenge and one to which NWB Bank is keen to contribute by providing finance. By signing the Paris Agreement at the end of 2015, nearly every country in the world, including the Netherlands, agreed to limit further global warming as far as possible, in any event to halt it below 2 degrees. This is essential if we are to succeed in bequeathing an inhabitable world to future generations. An increasing number of parties have realised that 'doing nothing' is not an option and will ultimately even prove more costly for those future generations. The transition to a climate-neutral and circular economy will require major steps and investments worldwide in the decades ahead - also in the Netherlands.

It is precisely for a country such as the Netherlands, which is not rich in natural resources and therefore has to rely mainly on ideas and innovation, that the energy transition offers great opportunities in terms of new prosperity. More than forty organisations signed the Energy Agreement for Sustainable Growth in September 2013 and the new government, which took up office in October, has announced a new national Climate and Energy Agreement aimed at a 49% reduction in carbon emissions, compared with 1990 levels, by 2030. The new government has made available nearly €4 billion in total to increase sustainability in the Netherlands. Among aspects of the coalition agreement that will be of interest to NWB Bank's clients

1) The list of the world's safest banks is published annually by the leading financial magazine Global Finance and compiled by comparing the long-term credit ratings and total assets of the top 500 banks worldwide. As in 2016, NWB Bank came sixth on this list in 2017.

are the even greater emphasis to be placed on climate resilience and robust water defences, and the fact that the new government has devised various ways of encouraging housing associations to invest in enhancing sustainability.

NWB Bank clients often take the lead in realising goals that have been set, 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 front runners in limiting their own energy consumption and generating their own sustainable energy. In 2016, they already provided 32.6% of their own energy needs by means of self-generated energy. Their aim is for this share to rise to 40% by 2020, and to become 100% energy-neutral by 2025. They also aspire to reduce their carbon footprint substantially. By purchasing green energy and producing biogas they already decreased their total carbon footprint by 15% in the period between 2013 and 2016 (source: 'Water Authorities Climate Monitor 2016' dated 5 December 2017).

The bank's other major client group, housing associations, also expressly acknowledge the importance of sustainability in the Netherlands. In the Housing Agenda as drawn up by the Aedes Association of Housing Associations, housing associations agreed to take substantial additional steps towards enhancing the sustainability of their existing housing stock. This involves investments in, among other things, energy savings and a sustainable housing stock, contributing to a better environment and lower housing costs for tenants. Tenants with sustainable dwellings have a clear advantage: they live in more comfortable conditions and their energy costs tend to be substantially lower, making affordability less of a challenge. The 'zero-energy' concept is being applied more and more frequently to new developments, and materials from demolished houses are reused. Even if investments in making the existing housing stock more sustainable are not always economically viable yet, energy consumption in housing association homes fell again in 2017. In line with the Housing Agenda, associations are aiming for an average 'B' energy label throughout the sector by 2021. As part of this effort, every housing association will formulate a plan in 2018 to ensure that their housing stock is carbon-neutral by 2050.

NWB Bank is one of the largest providers of finance for Dutch social housing. One in three social housing dwellings in the Netherlands is financed by NWB Bank (based on financing needs). This WSW-guaranteed financing, with the central government and municipal authorities acting as backup, not only ensures security of supply but also offers a considerable price benefit. Thanks to the mutual guarantees and backup, housing associations pay a lower interest rate than they would otherwise have been charged. According to parties interviewed, the benefit lies in a range of between 80 and 160 basis points, which helps to keep

public-sector rented accommodation affordable (source: 'Survey into the added value provided by the WSW guarantee system' conducted by Deloitte on 2 October 2015).

ONE IN THREE SOCIAL HOUSING HOMES IN THE NETHERLANDS IS FINANCED BY NWB BANK

Based on its core values ('conscious, engaged and reliable'), NWB Bank has linked its CSR policy to four themes that are derived from, consistent with and conducive to its general objectives. This is reflected 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

DEVELOPMENTS IN 2017

In addition to Water Bonds, we are now issuing Social Bonds as well

Following the earlier successful issues of Green Bonds (known as Water Bonds) NWB Bank issued its first Social Bonds (known as Affordable Housing Bonds) in 2017. With resounding success, NWB Bank issued a 7-year Affordable Housing Bond amounting to €1.5 billion, a 15-year one amounting to €500 million and a 30-year one amounting to €600 million in 2017. This led to NWB Bank receiving two awards: one for 'Most Impressive Social Bond Issuer' during the second Global Capital Sustainable and Responsible Capital Markets Forum and one for 'Social Bond of the Year' as awarded by the renowned news site Environmental Finance.

The proceeds from the Affordable Housing Bond will exclusively be used for the financing of social housing. The Netherlands has achieved successful social integration through an established infrastructure that ensures sufficient availability of suitable accommodation for different income groups and also provides a ready supply of high-quality accommodation for lower income groups. As mentioned above, NWB Bank is a major provider of finance for Dutch housing associations. The proceeds from the Affordable Housing Bond were used to grant loans to housing associations in 2017.

In addition to the Affordable Housing Bonds, NWB Bank again issued Water Bonds in 2017, for the fourth year in a row, this time in US dollars and Swedish krona. The bank is among the world's leading SRI bond (Socially Responsible Investing) issuers within the group of SSA (Sovereigns, Supranationals and Agencies). The proceeds from Water Bonds are being used to finance Green Bond Eligible Projects by the Dutch Water Authorities that target amongst other climate mitigation, climate adaptation and biodiversity. The proceeds from the Water Bonds were used for lending to water authorities in 2016 and 2017.

The successful issues of Affordable Housing Bonds and Water Bonds show that investors are finding investment in Social and Green Bonds an ever more important and interesting prospect. Together, these bonds are a significant part of investors' SRI portfolios.

More detailed information on the Affordable Housing Bond and the Water Bond, and how they are helping to achieve the Sustainable Development Goals, can be found in NWB Bank's Social Bond Newsletter and Green Bond Newsletter.

Collaboration with the European Investment Bank (EIB)

In 2017, the EIB made €250 million available to NWB Bank to invest in enhancing the sustainability of social housing and to help the water authorities to achieve their circular economy ambitions. Since NWB Bank is committed to providing at least the same amount, a minimum sum of €500 million in public investments has been mobilised. The EIB's loan to NWB Bank is a follow-up to the earlier collaboration which saw to the financing of €800 million in social housing, environment, knowledge economy and water sector projects in 2016.

The collaboration between the two promotional banks is designed to provide the public sector in the Netherlands with funding at even more attractive rates. It also means that smaller projects and clients, which would otherwise be ineligible, can benefit from very inexpensive EIB financing. Ultimately, this will reduce the clients' interest burden, which should, among other things, contribute towards water authorities' projects and keep social housing affordable.

€500 MILLION TO ENHANCE THE SUSTAINABILITY OF SOCIAL HOUSING AND WATER AUTHORITIES

"The EIB is the largest multilateral financial institution in the world in terms of volume, but we're a relatively small organisation. The partnership between NWB Bank and the EIB was established a few years ago to ensure that we reach smaller projects in the Netherlands as well. This excellent partnership continued in 2017 and resulted in €500 million in small public investments in the Netherlands."

Vice-President **Pim van Ballekom** (EIB)

Water Innovation Prize

NWB Bank is a partner in the Water Innovation Prize and in 2017, jointly with the Dutch Association of Water Authorities, again awarded the prize to innovative projects that are in keeping with the water authorities' mandate. In the past year, entrants competed in the categories of water safety, clean water, sufficient water and energy & water authorities. Prizes were awarded to, respectively, Fugro Nederland B.V. for its innovative leakage detection system for dyke reinforcements, the innovative GE(O)ZOND Water project for removing micropollutants from waste water, Multiflexmeter's modular sensor and to EQA-Box for its hydropower installation. As was the case last year, the Water Innovation Prize was awarded during the Water Authorities' Market and Innovation Day. The expert jury was chaired by Lidewijde Ongering, Secretary-General of the Ministry of Infrastructure and Water Management, with acting Chair of the Managing Board Lidwin van Velden appearing on behalf of NWB Bank.

'The winners are sterling examples of the Netherlands making the transition to a more sustainable country. Focusing on the environment and energy savings, the water authorities and their partners are endeavouring to manage climate change. The innovative strength of the sector fills me with optimism. The Dutch water sector is a front runner where climate solutions are concerned.

Lidewijde Ongering, Chair of the Water Innovation Prize jury

Climate Investor One financing

NWB Bank last year granted a 20-year loan to the Construction Equity Fund of Climate Investor One (CIO). The loan is guaranteed by the Dutch government through Atradius DSB.

CIO is an innovative approach to financing sustainable infrastructure and energy projects in developing countries. It focuses on solar energy, on shore wind energy and hydropower. CIO is an initiative of FMO, the Dutch development bank and Phoenix InfraWorks, a South African company specialising in sustainable infrastructure financing. The fund is managed by Climate Fund Managers (CFM).

CIO's structure is unique in that several investment funds are combined to form a single facility. This ensures more efficient financing during the various phases of a project cycle - development, construction and operations - and reduces the time required to achieve the results sought in respect of the environment, social impact and returns.

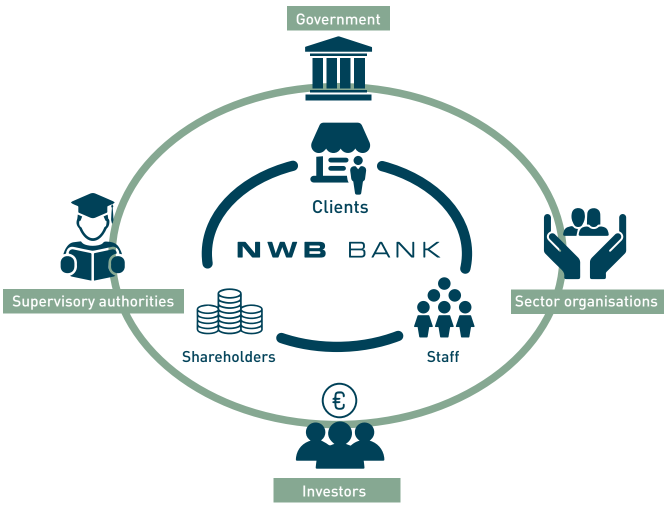
NWB Bank as a financial partner for the Sustainable Foundation Repair Fund

NWB Bank is one of the lenders to the Sustainable Foundation Repair Fund (Fonds Duurzaam Funderings-herstel). This fund, which was launched in the final quarter of 2017, offers owner-occupiers who would not normally qualify for a loan from the bank the opportunity to take out a loan for urgent foundation repairs. At present, necessary repairs to the foundations of a block of houses are often not carried out because one of the owner-occupiers is unable to raise the funds.

Various parties are involved in the Fund, including the central government, the Knowledge Centre for Approaches to Foundation Repair (KCAF), the Dutch Municipal Housing Incentive Fund (SVN), Rabobank and the Council of Europe Development Bank. Once the Fund has been drawn on sufficiently, NWB Bank, jointly with the other banks, will supply the long-term working capital that the fund requires.

STAKEHOLDER DIALOGUE

NWB Bank communicates with its stakeholders on a regular basis to find out what is going on in the public domain in which our clients operate, and in the banking arena relevant to the bank itself. All individuals and organisations that the bank works with, or that attach importance to the social role NWB Bank fulfils as a promotional bank, are being considered major stakeholders. In any event, the bank regards customers, investors, employees, supervisory authorities and the government as stakeholders. To coordinate and step up contact with all those different groups of stakeholders and to expand the bank's network, the bank appointed a Secretary to the Managing Board in 2017.



Clients

All of the Bank's clients are part of or operate in the Dutch public sector. For that reason alone, they have a great sense of social responsibility and their performance in this regard is monitored by public opinion, the democratic institutions and regulators. Even so, during meetings with clients NWB Bank never fails to call on those clients to pay attention to corporate social responsibility. Clients' sustainability policies are regular topics of conversation during client visits and client events.

On those occasions, NWB Bank provides more in-depth and broader insights into financial market developments, products, and working methods of third parties that may be of relevance to clients. The agenda for client events is drawn up based on client input. The high turnout is confirmation that client events address a real need. NWB Bank also holds presentations on specific topics by invitation, and on its own initiative, at client network meetings, regional consultations, symposiums and thematic meetings.

Shareholders

An Annual General Meeting of Shareholders (AGM) is held once a year. At this meeting, the Managing Board reports on topics such as objectives, corporate strategy, policy and financial results. Periodic formal and informal consultations are also held with the various groups of shareholders focusing on, inter alia, current developments within the bank and social trends that could affect the bank or its shareholders. Topics discussed include corporate governance and laws and regulations, as well as the bank's role in the energy transition.

Investors

It is important to NWB Bank to know which parties are providing the bank with funds. Where the investor is known, the bank first carries out a Customer Due Diligence (CDD) analysis for new parties and only accepts money from parties who have passed the CDD analysis. The Managing Board and staff of the treasury department maintain contact with investors by visiting them during the year to explain the half-year and annual figures and other developments.

NWB Bank largely funds itself on the international money and capital markets via the issue of negotiable debt securities. As a result, the bank does not know some of its investors by name. NWB Bank informs these investors through international road shows, the annual report and information posted on the website.

NWB Bank actively seeks dialogue with SRI (socially responsible investing) investors. For their part, investors keep the bank on its toes, deploying research agencies to assess its 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 engaging in dialogue with them. The feedback from those agencies and investors provides the bank with input that it uses to identify areas requiring improvement for its own CSR Policy.

Staff

Since the bank's success depends on attracting and retaining professional and committed staff, it is essential that staff members 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 its staff members. In practice, this means that staff exchange as much information and knowledge as possible. For instance, seven knowledge-sharing sessions ('brown bag sessions') took place in 2017. Examples include the visit of the Secretary-General of the Ministry of Finance and the visit of Water Reeve Peter Glas. Other efforts to promote staff involvement include consultations with the bank's Works Council. The Managing Board held two consultations on various topics, including the general state of affairs within the organisation.

Supervisory authorities and sector organisations

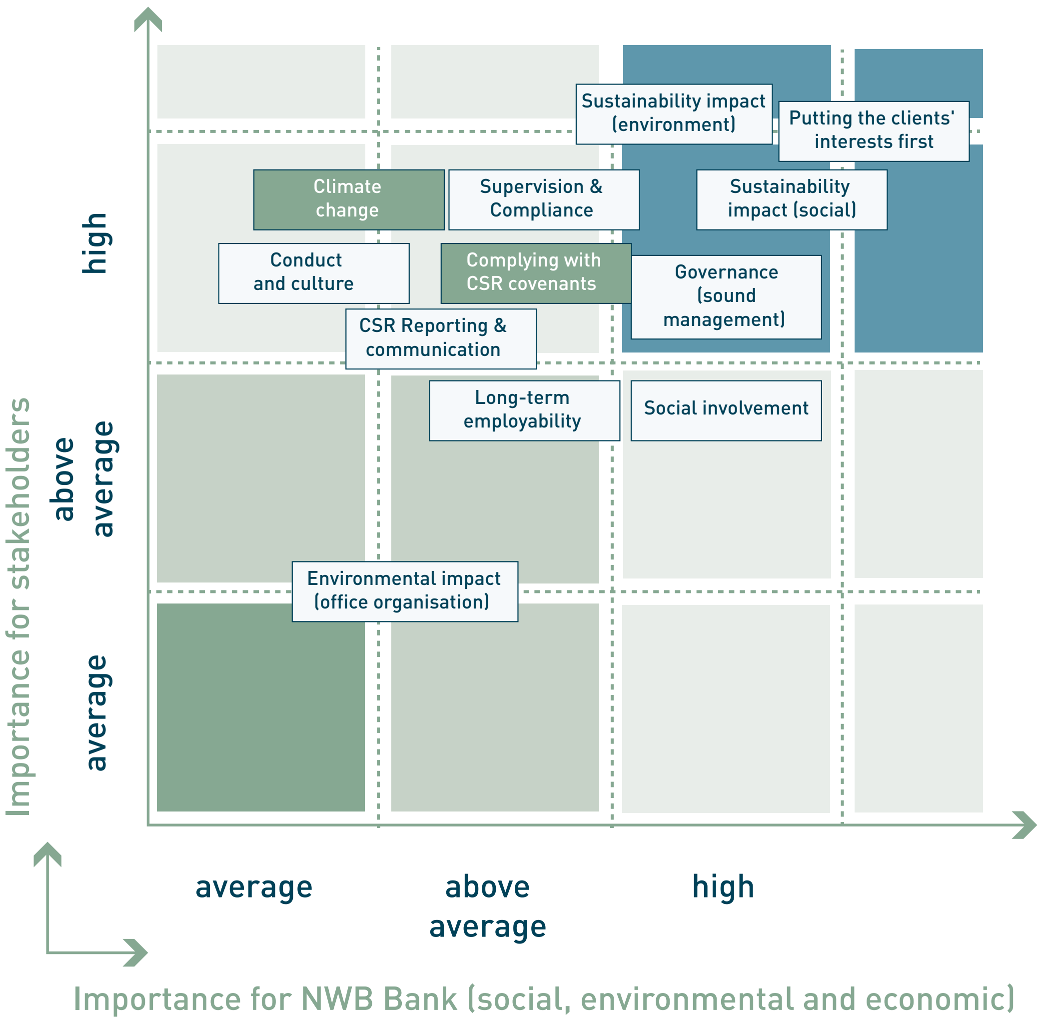
Several times a year, NWB Bank consults with the statutory supervisory authorities (i.e. the Dutch Central Bank (DNB), the European Central Bank (ECB) and the Netherlands Authority for the Financial Markets (AFM)) that monitor the bank's compliance with laws and regulations. The bank engages in these consultations independently, and also jointly through, among others, the Dutch Banking Association and the European Association of Public Banks. The supervisory authorities share the growing interest in corporate social responsibility. A good example of this is the report published by DNB in 2017 on the potential risks of climate change for banks, insurers and pension funds. For instance, extreme weather conditions could cause problems for insurers, while pension funds which invest in fossil energy could find that those investments rapidly lose value and suffer losses on energy-guzzling property. With its 2017 report and by entering into dialogue, DNB hopes to gain a clearer understanding of how climate-related risks could affect the financial position of financial institutions and identify the consequences this may have on its monitoring of the financial sector.

Government

As a bank of and for the government, NWB Bank plays an active role in financing public and semi-public institutions. The field of operations for clients of the bank, local public authorities and the institutions they back is demarcated by central government. NWB Bank participates in meetings with various relevant Dutch government ministries on a regular basis, contributing its expertise on policy issues. For instance, the bank is an active participant in the Local Public Authorities Financing Working Group. NWB Bank is also subject to government policy itself, for instance when it comes to the prudential rules pertaining to capital, and remuneration policy. For this reason there are regular consultations at national and particularly at international level with various public authorities.

MATERIALITY ANALYSIS

In 2017, as in previous years, a materiality analysis was carried out on the CSR topics that are important to the bank. The topics emerged from discussions with stakeholders and from their policies with regard to general social and sector-specific issues. This resulted in the 'Material Topics Plot' (MTP) shown here, which was drawn up by the bank's CSR committee. It turned out that the topics 'putting the client's interests first' and sustainability impact (environmental and social) are highly relevant for both the stakeholders and NWB Bank itself. Their relevance is apparent from such aspects as supervisory policies, discussions with shareholders, the focus on credit ratings in the financial markets and the bank's own policies. In 2017, the MTP was brought into line with the GRI provisions: this means that the impact of NWB Bank rather than the importance to NWB Bank is plotted on the x axis. Explanatory notes on the graph can be found in the GRI table on the website.



The MTP was drawn up from the stakeholders' perspective, based on discussions with them over the past year, as well as on online research. Benchmarking was used for the purpose of comparison with similar banks to identify the topics that are important to stakeholders. Based on the impact on 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 and were therefore not included in the plot. As mentioned, the main topics of relevance identified were 'putting the client's interests first' and sustainability impact. The final MTP was discussed and agreed with a number of clients at a client event. It emerged that the topic of climate change is important to them so it was given a higher position in the plot. In this connection, it is worth mentioning that 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

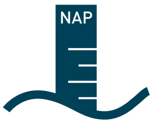
NWB Bank provides financing for local and regional authorities (water authorities, municipalities and provinces), institutions guaranteed by government bodies and other public sector institutions. The bank's clientèle consists mainly of public entities, such as institutions for social housing, healthcare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

To finance its activities, NWB Bank raises funds on the international money and capital markets on the basis of a very solid capital position and strong ratings. Its robust status and financial expertise enable NWB Bank to raise ample funds on favourable terms on the international financial markets. Moreover, the bank has a very lean cost structure and highly qualified and committed professionals.

NWB Bank puts its clients' 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, 'conscious, engaged and reliable' are the bank's core values.

NWB Bank largely achieves its impact through its lending activities and knowledge and information transfer.
The value chain is on page 72. The capital mentioned supports the business model and provides value for the stakeholders.

NWB BANK'S IMPACT (THROUGH FINANCING) IS MOST EVIDENT IN SEVEN SUB-AREAS:

1. 

Climate adaptation and mitigation: the proceeds from Water Bonds are earmarked for the financing of projects of the Dutch water authorities (see page 64 for further details). These authorities ensure that, despite rising sea levels and river discharge volumes, the Netherlands remains a place where we can live, work and relax in safety. Water authorities adopt innovative solutions in order to perform their work more effectively, intelligently, sustainably and affordably. The utilisation of solar panels, wind turbines, self-generated energy and the useful application of residual heat and recovered raw materials have become integral to the work of the water authorities.

2. 

Affordable social housing: the social housing guarantee system, whereby the government provides surety (through the Social Housing Guarantee Fund) for loans to housing associations, provides an interest rate advantage (see page 63). NWB Bank is a major provider of guaranteed loans and thereby contributes to this interest rate advantage, which ultimately benefits the social housing tenant.

3. 

Sustainable housing: housing associations own roughly one third of the total 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. The objectives for the migration of energy labels are also being monitored.

4. 

Reduce healthcare costs: the social added value of the Healthcare Sector Guarantee Fund (and the lenders involved) is estimated to amount to approximately 1.5% in interest rate advantage. Historically, NWB Bank has a market share of approximately 25% in guaranteed lending to the healthcare sector.

5. 

Circular economy: NWB Bank fulfils approximately 90% of the external financing needs of water authorities, which have made strenuous efforts to limit their own energy consumption, to recycle materials and to generate their own sustainable energy. Their ambition is for this share to rise to 40% by 2020 and to become 100% energy-neutral by 2025.

6. 

Low costs for government and citizens: NWB Bank's goal as a promotional bank is to provide financing to its clients on the most favourable terms possible. The bank wants to take full advantage of its innovative capability to keep the socio-economic costs of public facilities in the Netherlands, including the costs of the energy transition, as low as possible.

7. 

Promote export: to promote national exports, the Dutch government grants export credit insurance and guarantees to companies which, because of the nature of the buyer of the export product combined with the term and scale of projects, are unable or find it difficult to obtain financing. NWB Bank is active in the field of financing and structuring such export credits, but for the time being is involved in only a limited number of projects.

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 worldwide
- Lead group in the Eurozone with CET1 capital
- Low Cost/Income ratio
- Frequent issuer

Social and relationship capital

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

Human capital

- Well-trained and commited professionals
- Key members of staff are registered with the DSI (Dutch Securities Institute)
- Higher than average Work Ability Index

Intellectual capital

- Specialist knowledge
- Encouraging (product) innovation

Organisational capital

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

VALUE DRIVERS >

Mission

As a robust and sustainable bank for the public sector, we help our clients to create added value for society.

Vision

Our ambition is to keep the public sector's financing costs as low as possible and to be available for our clients at all times.

Shareholders
Customers
Investors
Employees
Supervisory authorities
Government
Branch organisations

Themes

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

Core values

Conscious, engaged and reliable.

Strategy

By responding to the changing requirements of our clients and by further diversifying our lending activities, we are increasing our social commitment as an independent promotional bank. A cost-conscious organisation, we use our AAA/Aaa ratings to raise funds for the public sector in an inexpensive and sustainable way.

OUTPUT >

Knowledge transfer

- Client seminars
- Treasury scans
- Insight into market developments
- Client meetings
- Innovatieve solutions

Lending

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

TO

IMPACT >

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

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MANAGEMENT APPROACH

CSR is an integral part of NWB Bank's strategy. The strategic CSR policy is translated at the tactical and operational level into the Policy Memorandum and specific annual plans. All of this is discussed during Managing Board meetings and agreed with the management team, after which the CSR objectives are included in the objectives of the various departments and staff involved. Implementation of the annual plans and the policy memorandum is monitored internally by the Managing Board based on periodic reports, which are also placed on the management team and departmental meeting agendas.

There is a CSR Committee within the bank whose specific task is to draw up, check and amend plans and policy changes directly related to CSR. The CSR Committee consists of staff members from various departments, a member of the Managing Board and the CSR Coordinator. The CSR Committee reports to the Managing Board, which is responsible for policy making, the management approach and the evaluation of the material social aspects of business. The CSR Committee members each have joint operational responsibility for their specific area of the themes, goals and associated reporting. The Managing Board bears final responsibility for CSR. Reporting on CSR agreements signed is mainly done through the GRI table.

The organisation draws up the themes from the CSR policy, with due regard for the perspectives and the interests of the various stakeholders. The CSR policy and 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 CSR objectives of their department and for allocating the time and resources needed for specific action in this context. Topics that emerge from monitoring activities are also discussed during management team and Managing Board meetings.

CSR is a recurring item on the agendas of the Audit and Risk Committees. The Supervisory Board ultimately monitors the CSR policy and related performance.

NWB Bank has tailored its CSR management approach and its choice of GRI sustainability performance indicators to its relatively small organisation and to its role as a financial service provider in the public sector. This approach provides the best match with NWB Bank's compact organisational structure and is expected to continue to do so in the future.

SUSTAINABLE DEVELOPMENT GOALS

On 25 September 2015, 195 UN member states, including the Netherlands, adopted the Sustainable Development Goals (SDGs). The SDGs, 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 policies. The 2030 Agenda for Sustainable Development elaborates on the Millennium Development Goals formulated for the end of 2015.

The 17 SDGs 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 SDGs. The CSR policy and the GRI table provide an overview of the 'mapping' of goals, targets, indicators and NWB Bank relevance. The seven objectives in question are listed below, accompanied by an example of how NWB Bank, on its own or through the NWB Fonds, believes it can make a meaningful contribution towards achieving each objective over the next few years:

SDG 5: Achieve gender equality and empower all women and girls

The 2017-2019 Collective Labour Agreement for the Dutch Banking Industry is the first CLA to include the Diversity Charter; as NWB Bank is one of the participating banks, this CLA is fully applicable to its staff. The male-female ratio at NWB Bank is 61%:39% (see page 87 for composition details).

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

NWB Bank finances the climate adaptation and mitigation activities of entities such as water authorities and social housing organisations 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, safe, resilient and sustainable

NWB Bank's largest client group in terms of the amounts lent, housing associations provide affordable rented accommodation in the Netherlands. The bank issued its first Social Bond in 2017, an Affordable Housing Bond, the proceeds of which have been 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 them realise their objectives and 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 put their extensive knowledge of this subject to use in developing countries.

CSR THEMES AND OBJECTIVES OF NWB BANK

NWB Bank has linked its CSR policy for the short and long term to four themes with accompanying objectives. Within those objectives the bank has made a distinction between CSR performance objectives (PO) that are measurable and capable of being influenced, and minimum preconditions (MP) for the long term (three to five years) derived from sources such as laws and regulations, governance codes, and internal codes of conduct and regulations.

Given NWB Bank's potential impact, its main priority is theme 2 'Sustainable and engaged financing', where it 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 issue	Theme and CSR policy
Clients	Putting clients' interest first	Sharing financial expertise with the public sector
	Social engagement	Sustainable and engaged financing
Shareholders	Social engagement	Sustainable and engaged financing
	Governance (sound management)	Ethical and transparent activities
Investors	Sustainability impact (Environment and Social)	Sustainable and engaged financing
	CSR Reporting and 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 engagement	Sustainable and engaged financing
Supervisory authorities	Conduct and culture	Ethical and transparent activities
	Climate change	Sustainable and engaged financing
	Supervision and Compliance	Ethical and transparent activities
Government	CSR covenants	Sustainable and social operations

Theme 1: Sharing financial expterise with the public sector

1.1. Keeping employees' knowledge of finance and trends up to date (MR).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
all	**all**	all	all	Attending annual training sessions by Front Office

1.2 Reducing the knowledge gap between the financial markets and the public sector (through client events, a 'Financial Markets Overview' and a treasury scan) - (PO).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
4	**2**	2	2	Number of events hosted 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 employees' knowledge of finance and trends up to date

All public finance and treasury department staff take part in at least one training session or conference a year. Staff also keep track of financial developments via the relevant 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, helping NWB Bank to respond even more effectively to its clients' need for professional financial support.

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

NWB Bank uses various channels to communicate with its clients and other stakeholders.
For instance, the bank provides its contacts with weekly insights 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, assess the risks and respond immediately to changing market conditions if they wish.

Moreover, NWB Bank organises annual client events for each client segment, with information provided on the workings of the financial markets, current developments and specific financing and other topics. These educational events aim to enhance clients' financial knowledge and help improve their financial processes. The number of client events arranged in 2017 was four, including client events for water authorities and various information sessions for housing associations in light of the WSW's new guidelines on derivatives.

On top of this, the bank held presentations in 2017 for various governing boards of water authorities. Through these events, NWB Bank is bridging the knowledge gap between the public sector and the financial world.

NWB Bank's account managers regularly visit clients and other stakeholders to discuss developments and address specific needs. This allows current and potential clients to discuss their financial issues and finance requirements with NWB Bank, have a treasury scan performed of their loans portfolios or learn about new finance instruments available in the market. There were no treasury scans in 2017. 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, in 2017 NWB Bank continued to inform its clients about media reports concerning the public sector via its daily newsletter NWB Bank Publieke Sector Actueel [NWB Bank Public Sector Update]. The newsletter informs clients and other stakeholders about developments in the social housing, local and regional authority and education markets.

NEW DRIEMANSPOLDER PROJECT

The Nieuwe Driemanspolder, once a piece of agricultural land situated between the cities of Zoetermeer, The Hague, Leidschenveen and Leidschendam-Voorburg, is being redeveloped as a buffer area for excess water in situations of high tide, flooding rivers and excessive rainfall, combined with nature and leisure functions. The Rijnland Water Authority is driving the project, collaborating with the municipalities of Zoetermeer, Leidschendam-Voorburg and The Hague and the province of South Holland, which are co-funders. The Rijnland Water Authorities investment is financed by NWB Bank.

Necessity

The Central Holland area needs somewhere to store excess water in situations of high tide, flooding rivers and excessive rainfall. In the event of extreme rainfall, the water level in the ditches in the polder and surrounding storage basin system rises quickly. This puts pressure on the local water system and increases the risk of the surrounding area flooding. The construction of the water storage facility in the Nieuwe Driemanspolder will minimise that risk and enhance flood prevention throughout the Rijnland operating area. This way, Rijnland will avoid nuisance and disruption from water for local residents and businesses.

Combined use of space

The pressure on the local water system has not yet reached the level where the water storage function will soon have to be used every year. However, with climate change pressure is set to increase and expectations are that ever more frequent use will have to be made of the water storage facility in the future. To maintain a balance between the social costs and benefits for the construction of the water storage facility, a decision was made to combine spatial functions in the area. As well being used as a buffer for excess water, the Nieuwe Driemanspolder will also serve as a nature reserve and recreation area as from 2020.

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).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
yes	**yes**	yes	yes	Tailor products offered (internally/externally).

2.2 Putting the client's interests first in lending activities – (MP).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
yes	**yes**	yes	yes	In principle, help clients to make early repayments
none	**none**	none	none	Number of complaints filed
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).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
yes	**yes**	yes	yes	Compliance with/review of exclusion criteria
yes	**yes**	yes	yes	Compliance with covenants (ICSR agreement, UN Global Compact)

2.4 Further encouraging socially responsible projects among the bank's clients (including the Water Innovation Prize and the Water Bond). The goal is to link €500 million in lending to Green Bonds every year until 2020 – (PO).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
880 million	**500 million**	500 million	500 million	Volume of finance linked to Green Bond
2,6 billion		1 billion	1 billion	Volume of finance linked to Social Bond
yes	**yes**	yes	yes	Presenting annual Water Innovation Award

As a promotional bank, NWB Bank imposes internal requirements on client groups, 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 always tailors its products and services to the client's needs, in accordance with the nature of the sector and the vision of the relevant supervisory authority. Financial products are subjected to an internal product approval process before being offered by the bank. This process ensures that products are tested on their suitability for a specific client group, among other criteria.

The internal product approval process is one of the subjects addressed in the Dutch Banking Code (see: Corporate Governance on page 54) and is explained in more detail in the GRI table. The process plays a central role in product responsibility and involves all relevant NWB Bank departments.

2.2 Putting the client's interests first in lending activities

As a bank of and for Dutch public authorities, it is important for NWB Bank to serve as a point of contact for regular clients in the public sector. NWB Bank can always provide its clients with quotes for money market and capital market loans and disburse the principal amount on the same day if desired. NWB Bank also provides quotes for loans with principal amounts below €1 million, so that it can also serve clients with more modest financing needs.

> The board responsible for the village hall found it was a challenge to secure financing for its extension and renovation. Despite the efforts of local residents and various funds, it proved impossible to carry out the project in the near future. NWB Bank was able to provide us with a loan in the short term and at a very attractive interest rate, which means we will be able to complete the project.
>
> **Aloy van Woudenberg,** secretary and treasurer of the Dorpscentrum Ried Foundation

NWB Bank teamed up earlier with the European Investment Bank (EIB) to enable smaller projects and clients to be benefit from inexpensive financing. In 2017, as part of that partnership, the EIB provided NWB Bank with €250 million specifically to finance sustainable projects of housing associations and water authorities. Since NWB Bank is committed to providing at least the same amount in loans for designated projects, a minimum sum of €500 million in public investments has been mobilised.

> NWB Bank has for years been our financing partner with the most competitive rates. Thanks to the partnership with the EIB in particular, NWB Bank is unbeatable in the present market.
>
> **Jan Schiphuis,** senior policy adviser for finance of the Hunze en Aa's Water Authority

New clients are subjected to the CDD (Client Due Diligence) policy, i.e. the client validation process, before a loan is granted. As part of the vetting process, the bank requests and assesses specific client information. As soon as it has been approved, the client is validated and a transaction can be concluded.

Once a loan has been taken out, NWB Bank gives the client all the attention they need, regardless of size or volume of lending. For instance, the bank always responds to requests for face-to-face meetings and, if requested, is always prepared to consider bespoke arrangements. Requests for cooperation in arranging early repayments are a good example of this. The bank is proactive in helping clients to find ways of optimising their loan portfolios. Maturity extensions were also granted in this context, with loans being replaced with longer-term loans at the current low interest rate.

> We are very satisfied with NWB Bank's competitive quotes, prompt payment and the way it deals with contracts. Of all the loans that Amstel Gooi en Vecht has taken out since 1997, 95% were raised from NWB Bank.
>
> **Rob van Ommeren,** treasurer of the Amstel Gooi en Vecht Water Authority

In 2017, the bank helped to restructure derivatives portfolios of housing associations. In this way, the bank helps to phase out derivatives in the sector, as a result of which associations no longer need to maintain extra liquidity buffers, freeing up financial resources for investing in social housing. In more detail, housing associations are able to exchange their derivatives and any underlying loan for a new long-term loan with a fixed interest rate with NWB Bank. This facility is also referred to as a 'conversion arrangement'. Since NWB Bank has taken over the derivative, the housing association is no longer required to furnish the derivative counterparty with security or maintain a liquidity buffer so as to be able to pay the fair value if the derivative is terminated prematurely. This enables the housing association to start using the money again for its core tasks, for example for investments in new construction or in enhancing the sustainability of existing housing stock. Our clients responded positively to this opportunity and went on to take prompt action following our information events. The result of all this is that a number of housing associations no longer have derivatives in their portfolios. The bank itself does not enter into derivatives with its clients.

> NWB Bank enabled us to convert existing derivatives into fixed-rate loans and thus reduce our risks.
> **Evelien van der Sman,** Woonbron financial policy adviser

2.3 Sustainable and responsible financing and investment

In 2017, NWB Bank once again contributed to tailored financing solutions for sustainable projects. Examples include the acquisition of new trams by the Rotterdam The Hague Metropolitan Region (MRDH) and the National Restoration Fund (NRF)'s financing of owners of historical properties. There were no disposals or acquisitions in 2017.

Within the CSR policy, the CSR exclusion criteria are applied to NWB Bank's lending and liquidity portfolio. As a bank of and for the Dutch government, NWB Bank only provides financing to the public sector in the Netherlands. This is defined in the objects clause in Article 2.1 of the Articles of Association as regards lending. 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 ineligible for NWB Bank's lending operations. The technical adviser 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 come within product category B (projects with a limited social or environmental impact) or C (projects with no or a minimal social or environmental impact).

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 and Affordable Housing Bonds.

PHARIO Project[1]: degradable plastic originating from sewage water

Producing degradable plastic using sludge from sewage water - that is PHARIO: a unique project with an international dimension, conducted by the Brabantse Delta Water Authority in collaboration with four other water authorities, the business community and knowledge institutions. The project partners have succeeded in producing degradable plastic, on a small scale. The Brabantse Delta Water Authority's investment is financed with funds from the Nederlandse Waterschapsbank.

Circular economy

A promising future lies ahead for bioplastics made from sludge, particularly given society's goals and ambitions for a circular economy. Sewage water has become a source of valuable raw materials, including bioplastics, and these materials in turn are fully biodegradable. What's more, the environmental burden associated with the production of bioplastics is very low.

Preserving the environment

Biodegradable plastic can be used as a raw material for a wide variety of items, including packaging, plastic bottles, plastic used in agriculture (seed coatings, degradable root membranes, bags for vegetable, fruit and garden waste) and 3D prints. These are all applications where biodegradability in the environment is of considerable value; not just on land but also in the water. Degradable plastic will help to reduce the quantity of plastic soup in the world's oceans.

The next step

It is time for the next step in this promising project. The business case shows that bioplastic is of the same quality as commercial plastics, that it meets the customers' requirements and that it can be mass-produced at a competitive cost price. It is important that parties seeking to introduce this innovative plastic into the market are joining the project. It is now up to them to make sure that the next step towards commercial-scale production can be taken.

Innovation prize

The PHARIO project has been voted 2018 Water Innovator of the Year. The jury described PHARIO as: 'A promising combination of technical and social innovation, which links the social problem of non-degradable plastics to the water sector's role in creating a circular economy by enhancing the sustainability of its waste water'.

Pride

The water authorities are proud of this project, not least because of its sustainable nature and the international cooperation with parties from Sweden, France, Germany and Ireland. Presentations on the project have already been given at conferences in London and Berlin. The Dutch water authorities are international front runners when it comes to recovering raw materials from sewage water. The PHARIO project is helping to further strengthen that leading position.
The water authorities take particular pride in the project's sustainable nature as it reflects their ongoing concern for the future, and future generations, in all their operations. Innovations, sustainability and the circular economy are important concepts to them and take centre stage in this project.

PHARIO stands for PHA (PolyHydroxyAlkanoates) made from RIOolslib [sewage sludge]. The PHARIO project is a unique partnership made up of the Brabantse Delta, De Dommel, Scheldestromen, Hollandse Delta and Wetterskip Fryslân Water Authorities, in collaboration with SNB, HVC, the Foundation for Applied Water Research (STOWA) and Paques.

1) The text relating to the PHARIO project does not fall within the scope of EY's audit engagement.

Theme 3: Sustainable and social operations

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

Achieved	Objective			Description
2017	**2017**	2018	Long term	
2,9	**≤2**	≤2	≤2	% regular sickness absence among employees.
3,096	**3,250**	3,250	3,250	Training costs per employee in euros
all	**all**	all	all	Number of employees subject to performance and career development
100	**100**	100	100	% employees with pension cover under the NWB pension plan

3.2 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).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
0	**≥ 1**	≥ 1	≥ 2	work placements

NWB Bank seeks to lead by example in terms of its organisation and the environment. This is clearly reflected in the **CSR policy**. With a small office organisation, NWB Bank has low CO_2 emissions and a limited environmental impact. The risk is therefore limited. Targets, objectives, results and other information about the office organisation are reported in the **GRI table**. The social projects of staff have also been accounted for in the GRI table this year. The CSR Committee is responsible for monitoring.

3.1 Promoting a healthy working environment and healthy development

Long-term employability

Long-term employability is one of the spearheads of the bank's HR policy. NWB Bank aims to attract, retain, further develop and promote competent personnel in a way that benefits both the organisation and the employee. This is important given the changes in the outside world, which call for greater flexibility in terms of knowledge, competencies and skills, and longer employability. If the bank does not address this, the employability of staff could be at risk. The bank uses a wide range of instruments to encourage long-term employability and create a pleasant working environment.

Intensive and personal guidance for employees 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 HR cycle. Objectives, progress and appraisal interviews are conducted with all employees and recorded. This cycle is particularly beneficial in terms of the dialogue that it encourages between supervisor and employee regarding development.

One aim of the long-term employability aspect of HR policy is to engage employees more actively in the HR cycle and encourage them to think about their personal development. NWB Bank changed its assessment method in 2017 to facilitate this. Employees are now asked and helped to provide more input on their own performance and development, and there is greater differentiation in the assessments.

An induction programme was set up for new employees in 2017, which provides for a personal mentor and an introduction to NWB Bank's mission, vision, culture and clients, for example by introducing new employees personally to members of the various departments and the Managing Board.

An ample budget for training to maintain employees' professional performance level and achieve future ambitions

The bank attaches great importance to employee development. A good two thirds of its employees have received higher professional or university education. The bank places a strong focus on broadening and refining knowledge and skills through external and internal training. Employees also receive guidance from external professionals where necessary.

NWB Bank had a healthy training budget of €250,000 in 2017. With a workforce of 61 employees, this equates to €4,098 on average per employee. An average of €3,096 was spent on training for each employee in 2017, meaning that the target of €3,250 was not achieved.

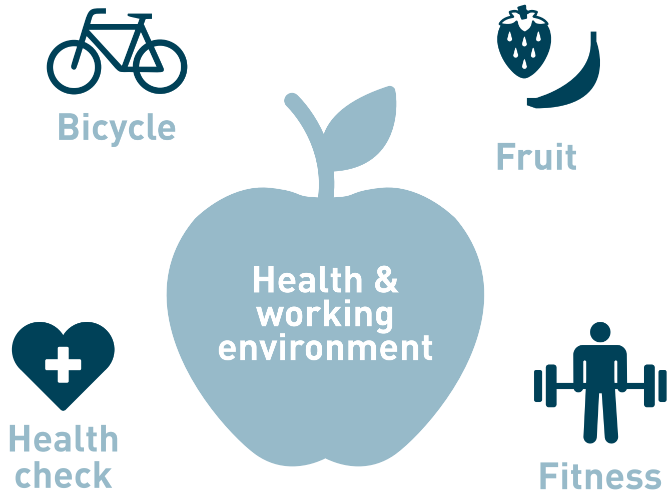
Note that the costs for learning on the job and coaching are not included in these figures.

Employees took part in group training sessions in the areas of repurchase, cybercrime, English and funds transfers in 2017.

TRAINING BUDGET SPENDING PER EMPLOYEE

Health and working environment

A focus on physical health is in keeping with NWB Bank's culture and policy of prioritising its staff. The bank's bicycle scheme, which encourages employees to commute by bicycle, was extended in 2017. It is open to all employees, regardless of the commuting distance, and in the past year was also made available to employees who participate in the public transport commuting scheme. Thirty-three per cent of staff currently use the bicycle scheme. On top of this, the bank offers an indoor gym and provides fruit every week.



Total sickness absence
2016 - 1.81% **2017** - 2.92%

Short absence of up to 7 days
2016 - 1.10% **2017** - 0.75%

Medium-length absence of up to 42 days
2016 - 0.47% **2017** - 0.49%

Long-term absence of up to 365 days
2016 - 0.24% **2017** - 0.21%

Long-term absence of up to 365 days
2017 - 1.48%

NWB Bank has a target absenteeism rate of 2.0%. The actual rate in 2017 was 2.9% owing to a rise in long-term absenteeism (long-term and prolonged absence). However, the number of absences, reporting frequency and the short-term absence rate fell compared with 2016. No physical accidents occurred in the workplace.

Culture, behaviour and development

One major strength of NWB Bank is its pleasant and professional corporate culture, which recognises the importance of aspects such as cooperation and engagement. The bank's core values ('conscious, engaged and reliable') and its social objectives are firmly established within the corporate culture. The conduct of its people is at least as important as a well-defined mission, vision and strategy (which were reworded in 2017). This is why corporate culture is the focus of ongoing attention. The bank took follow-up action on the key points of attention formulated in 2016, including 'mutual feedback' and 'outward-looking focus', in 2017. Examples included a change in the assessment system which allows employees to reflect on their own performance and facilitates input by colleagues, as well as the 'brown bag sessions' launched in 2016.

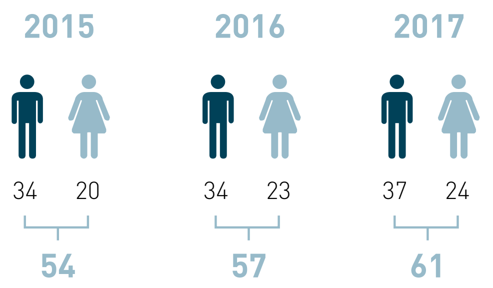
Diversity and inclusiveness

NWB Bank seeks to recruit professionals who complement its current workforce. In the event of equal suitability, candidates who contribute towards the diversity of the workforce will be given preference when vacancies arise. With a male-female ratio of 61%:39%, NWB Bank is contributing to SDG 5 (Achieve gender equality and empower all women and girls).

Attention is being paid to the different age groups within the organisation. The 'Young Professionals' group, which was created in 2016, was expanded this year. Its members, known as millennials, provide input and elaborate ideas from the perspective of this group of employees.

	2016	2016	**2017**	**2017**
	Number of employees	%	Number of employees	%
Employees aged 61 to 70	0	0	**1**	**1,6**
Employees aged 51 to 60	13	22,8	**15**	**24,6**
Employees aged 41 to 50 jaar	25	43,9	**27**	**44,3**
Employees aged 31 to 40 jaar	13	22,8	**10**	**16,4**
Employees aged 21 to 30 jaar	6	10,5	**8**	**13,1**

GENDER BALANCE W/M



In addition, NWB Bank focuses on Social Return. In this field, it has continued to work successfully with organisations that help people with impairments find a job and provide assistance in terms of participation in the labour market. The bank also purchased a Participation Certificate, helping to remove the final obstacles to a sustainable workplace for people who are distanced from the labour market.

Complaints procedure

Clients can lodge any complaints under NWB Bank's General Terms and Conditions and complaints procedure. The bank received no complaints through the formal complaints procedure in 2017. It also has a whistleblower scheme, enabling 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 whistleblower reports were received in 2017.

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

3.2 Providing internships to senior secondary vocational education, higher professional education and university education students

NWB Bank offers internships to senior secondary vocational education, higher professional education and university education students. Upon request, it also facilitates work experience placements for pre-university pupils. 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 did not meet this goal in 2017.

Theme 4: Ethical and transparent activities

4.1 Staff awareness of ethical conduct – (MP).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
no	**all**	all	1* every 2 years	Number of employees who have undergone anti-corruption / integrity training.
all	**all**	all	all	Code of conduct and banker's oath for employees

4.2 The bank aims to rank amongst the best of its peers in the Transparency Benchmark. The goal is to belong to the top 10% of the Transparency Benchmark until 2020 – (PO).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
yes	**yes**	yes	yes	Top 10% of Transparency Benchmark until 2020

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

Achieved	Objective			Description
2017	**2017**	2018	Long term	
yes	**yes**	yes	yes	Product risks described on website
2	**≥ 2**	≥ 2	4	Number of Works Council meetings (with the Managing Board)

4.4 Screening of new employees – (MP).

Achieved	Objective			Description
2017	**2017**	2018	Long term	
all	**all**	all	all	Pre-Employment Screening for new employees.

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 supervision. Integrity risks are part of the operational risk management framework. A systematic integrity risk analysis is carried out in the form of an annual assessment of operational risks, including integrity risks and control measures.

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 a periodic business review and an evaluation of the project calendar with the aim of optimising internal transparency. Furthermore, an annual review of AO/IC procedure descriptions will be made an integral part of the in control statements. The bank completed the design of its operational risk management framework in 2017.

Another aspect demonstrating social commitment is the bank's efforts to combat corruption and bribery. NWB Bank's CSR policy stipulates zero tolerance when it comes to bribery and corruption, regardless of the identity or job title of the person who offers or receives the bribe or is otherwise engaged in fraudulent activity. The risks of fraud mainly occur in the area of lending. The Managing Board expects all its employees to comply with the highest standards of ethical conduct and integrity at all times. This includes taking measures 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 will never offer inappropriate commission, or anything that could be interpreted as such, to anyone or for any purpose. The compliance officer is responsible for monitoring this. Anti-corruption and integrity training has been postponed until 2018 because it was decided to combine these sessions with operational risk management training.

NWB Bank sets great store by integrity, which is why new employees are required to take the banker's oath or vow before a member of the Managing Board and the Compliance Officer. Before joining, new employees are also required to sign a number of documents on the subject, including NWB Bank's Code of Conduct, a Declaration of Confidentiality, the Insider Regulations and the Information Security Protocol. Lastly, all of the bank's new recruits are subject to Pre-Employment Screening, regardless of their position. Management team members must be listed in one of the registers of the Dutch Securities Institute (DSI).

4.2 Transparency benchmark

NWB Bank feels very strongly about transparency in reporting. Every year (and, from 2018, once every two years) the Ministry of Economic Affairs and Climate Policy publishes what is known as a Transparency Benchmark. NWB Bank managed to improve its position as one of the front runners within this benchmark by climbing from 35th place to 27th place out of a total of 505 participants. The goal of remaining within the top 10% was therefore again achieved last year. The bank was ranked in ninth place within 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 meetings and in presentations. This way, clients and stakeholders are provided with insight into the backgrounds to the bank's operations and any costs incurred. The bank acts transparently with respect to the costs involved in, and the calculations underlying, more complex products, e.g. when taking over derivatives or restructuring loans. Processes that must be followed are explained upfront, allowing all parties involved to know what is expected of them. If desired, the bank cooperates in 'dry runs', during which processes are simulated in advance to minimise the likelihood of uncertainties and unpleasant surprises.

Clients can ask NWB Bank to provide indicative rates via the public finance department. The weekly Financial

Markets Overview also contains rate indications, with a distinction made between the swap rate and credit spreads. These rates enable clients to monitor market trends and base their investment decisions on accurate interest cost assumptions.

The bank attaches importance to a high level of involvement on the part of its employees. This is reflected by, among other things, the consultation with the bank's Works Council. There were two meetings between the Works Council and a Managing Board member in 2017. The Supervisory Board was represented at one meeting.

4.4 Screening of new employees

In 2017, NWB Bank received no internal reports of corruption or bribery. The bank has implemented various preventive measures, the most important of which are Pre-Employment Screening, the Insider Regulations and the Code of Conduct. The bank's screening policy was further tightened in 2017.

DILEMMAS

This section contains a number of issues in respect of which the bank has weighed various options to solve CSR issues.

Generic financing

In the bank's systematic application of CSR-related exclusion criteria and its policy of fostering responsible investments, generic financing is a dilemma. The intended purpose of the funds lent is to finance cash deficits or refinance existing loans. This means there is not always a specific project for which the CSR aspects can be assessed.

New products

When addressing specific client needs, situations may arise in which the pros and cons of launching a new product must be weighed. NWB Bank's product approval process involves weighing up the risks involved for both the client and the bank itself. As a result, the client may not always receive the exact solution they want, owing 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, it also wants to adhere to the policies it has so carefully formulated.

Small new client groups

The public domain includes small client groups with relatively small financing needs. The limited scale of the financing required for these clients 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 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 time needed for a sound analysis were allocated to the credit spread, this would lead to significantly higher costs. However, due to our social role, we decided against this and will continue to serve these small client groups.

Rebound clause for municipalities

Some of the payment agreements concluded by municipal clients with their principal banks contain a rebound clause. A rebound implies that the principal bank is given an opportunity to issue a second, better quotation. As this is detrimental to a fair and transparent tender process, NWB Bank refrains from submitting a tender in processes of this type. The rebound clause leads to three dilemmas. Firstly, the bank aims to be available to provide its clients with financing at all times, but cannot do so if it does not submit a tender. In addition, clients should receive a minimum of two quotations. 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 they always receive a tender.

Unsecured financing

Within the social housing and healthcare sectors, NWB Bank's Articles of Association stipulate that the bank can only finance housing associations and healthcare institutions secured by the Social Housing Guarantee

Fund (WSW) and the Healthcare Sector Guarantee Fund (WFZ) respectively, or university hospitals. This means that the bank will not grant loans to housing associations or healthcare institutions that are not backed in this way. The dilemma that presents itself is that those clients are finding it hard in present market conditions to obtain loans for the financial needs for which no guarantees are available.

However, the absence of this guarantee means that NWB Bank is unable to meet its core responsibility (i.e. 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. The only solution would be for NWB Bank to amend its Articles of Association such that it is permitted to provide finance without guarantees.

Social Bonds and Green Bonds

By issuing the Social Bonds and Green Bonds, NWB Bank offers investors the opportunity to invest in sustainable bonds. Supplementary 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. Since NWB Bank issues bonds, the identity of the holders of those bonds is not immediately apparent (although investors are screened at the time of issue). It is therefore possible that the bonds are held as an investment by entities which do not practise CSR themselves.

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 standards for 2017 and relates to the entire NWB Bank organisation.

The reporting choices 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 article on 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 (see appended report on page 93).

NWB Bank's reason for choosing GRI is that it strives to offer excellent international comparability with other institutions, such as other banks and publicly held enterprises in the Netherlands. NWB Bank also anticipates doing so in the long term. GRI launched the GRI Standards developed by the Global Sustainability Standards Board in 2016. NWB Bank has applied these new standards in this report. The GRI Standards are 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.

EU Directive 2014/95/EU on disclosure of non-financial information and diversity, issued in 2014, obliges the relevant organisations to be more transparent about non-financial information such as environmental and social policies and diversity at the top. The Directive has now been transposed into Dutch law in two parts, effective 1 January 2017. Public shareholdings are not explicitly named as a category falling within the scope of the Directive in Dutch law. As shareholder, the Ministry of Finance asked for the non-financial information and diversity information to be included in the annual report.

See the EU Directive reference table

NWB Bank subscribes to the UN Global Compact principles. By signing these principles, the bank has committed to considering key themes such as human rights, the environment and anti-corruption in its business processes. It also means that NWB Bank will hold its stakeholders to account, where possible and relevant, for compliance with these principles. Further information on the implementation of these principles can be found in the GRI table on NWB Bank's website.

Together with 12 other banks, trade unions, non-governmental organisations 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 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'. NWB Bank has formulated a specific Customer Due Diligence policy that is applicable both to the credit portfolio and the liquidity portfolio. It also describes the analysis of human rights. The risks for NWB Bank are limited given the nature of its portfolio. A baseline measurement was performed and reported to the agreement committee in 2017.

ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

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

Our opinion

We have audited the chapter Corporate Social Responsibility in the annual report for the year 2017 of Nederlandse Waterschapsbank N.V. at Den Haag. An audit engagement is aimed at obtaining reasonable assurance.

In our opinion, the sustainability information presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility
- the thereto related events and achievements for the year 2017

in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in paragraph CSR reporting standards of the annual report.

Basis for our opinion

We have performed our audit on the 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 are independent of Nederlandse Waterschapsbank N.V. 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 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, Dutch Code of Ethics).

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

Limitations to the scope of our audit engagement

Unexamined prospective information

The chapter Corporate Social Responsibility includes prospective information, such as ambitions, strategy, plans, expectations and estimates. Inherently, the actual future results are uncertain.
We do not provide any assurance on the assumptions and achievability of prospective information in the chapter Corporate Social Responsibility.

Unaudited references to external sources

The references to external sources or websites in the sustainability information are not part the chapter Corporate Social Responsibility as audited by us. We therefore do not provide assurance on this information.

Responsibilities of management and the supervisory board for the sustainability information

Management is responsible for the preparation of the chapter Corporate Social Responsibility in accordance with the Sustainability Reporting Standards of GRI and the applied supplemental reporting criteria as disclosed in paragraph CSR reporting standards of the annual report, including the identification of stakeholders and the definition of material matters. The choices made by management regarding the scope of the chapter Corporate Social Responsibility and the reporting policy are summarized in paragraph CSR reporting standards of the annual report.

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

The supervisory board is responsible for overseeing Nederlandse Waterschapsbank N.V.'s reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE CHAPTER CORPORATE SOCIAL RESPONSIBILITY

Our responsibility is to plan and perform the assurance engagement with a reasonable level of assurance 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 decisions of users taken on the basis of the information in 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 apply the Nadere voorschriften kwaliteitssystemen (Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

We have exercised professional judgment and have maintained professional skepticism throughout the audit performed by a multi-disciplinary team, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

The procedures of our audit consisted amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the organization.
- Evaluating the appropriateness of the reporting criteria used, their consistent application in the chapter Corporate Social Responsibility, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management.
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit.
- 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. Our other procedures consisted of:
  - Interviewing management and the members of the CSR committee responsible for the sustainability's strategy, policy and performance.
  - Interviewing relevant staff responsible for:
    - Providing the information for
    - Carrying out internal control procedures on the data and
    - Consolidating the data in the chapter Corporate Social Responsibility
  - Evaluating relevant internal and external documentation, on a sample basis, to determine the reliability of the information in the chapter Corporate Social Responsibility.
  - An analytical review of the data and trends.

- Evaluating the presentation, structure and content of the chapter Corporate Social Responsibility as a whole, including the disclosures, in relation to the reporting criteria used.

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

The Hague, 15 March 2018

Ernst & Young Accountants LLP

signed by R.J. Bleijs

NWB FONDS

"The NWB Fonds is the focal point for the water authorities' international projects. In the coming years, the Fund aims to provide the Dutch Water Authorities with further support so that they can make an even bigger impact with their practical knowledge and expertise."

Paul Langeveld, NWB Fonds Programme Manager

Working and learning together to develop global water solutions

The NWB Fonds co-finances the water authorities' international partnership projects. This helps the water authorities, known jointly as the Dutch Water Authorities, to meet the demand for their expertise in solving global water-related issues. With NWB Fonds support, the Dutch Water Authorities played an active part in the following countries in 2017: Burkina Faso, Colombia, Egypt, Ethiopia, Indonesia, Mozambique, Nicaragua, Swaziland, South Africa and Vietnam.

To ensure maximum impact, in addition to missions, the NWB Fonds is also stepping up investment in skills development to promote efficient, sustainable and innovative water management. Encouraging exchanges between projects and water authorities at the start of a project is also playing an ever greater role. In recent years, partnerships have been lasting longer and results and learning benefits have improved as well. This means the €800,000 made available by the NWB Fonds is being put to good use.

The impact on the global agenda for climate adaptation and Sustainable Development Goals is rising and is set to grow further in the years ahead, particularly since, with the Blue Deal, the central government and the Dutch Water Authorities have agreed to increase the level of international cooperation.

Thanks in part to the NWB Fonds, a land use pilot was launched in one of the projects in Nicaragua. Instead of maize alone, it was decided to plant a mixture of different plants here. In addition to slowing down soil erosion, this practice helps to increase the yield from the land and make it more predictable.

For more information: www.nwbfonds.nl

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REMUNERATION REPORT 2017

7. REMUNERATION REPORT 2017

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, low risk profile and risk appetite, the remuneration policy contributes to achieving the bank's long-term objectives, which are aimed at long-term value creation. 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 MEMBERS OF THE MANAGING BOARD

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). When establishing the new remuneration policy in 2015, the shareholders decided to review it every five years. The remuneration policy will therefore be redefined during the General Meeting in 2020 based on the recommendation of a shareholder committee.

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. 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. There is a deferred component amounting to a maximum of 5% in the Managing Board's variable remuneration. The deferred component is paid in the fourth year after the year to which it relates, provided the pre-agreed long-term targets have been achieved. The long-term targets of the variable remuneration contribute towards long-term value creation.

The variable remuneration is determined on the basis of the following categories:

- profit (in line with 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 7%
- personal areas for attention and targets – a maximum of 2%

In view of the fact that implementation of the strategic policy is deemed a collective responsibility, the percentage will be increased from 3% to 7% from 2017. The personal areas for attention and targets are deemed of lesser significance, and have therefore been reduced from 6% 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 Dutch State
- strategy – the bank's strong market position in the public sector 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 clawback does not cover the deferred component of the variable remuneration and applies for up to three years following payment.

In view of the relatively small scale of the variable remuneration, no scenario analyses were performed when the remuneration policy was formulated and prior to the determination of the variable remuneration of individual Managing Board members.

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 employees, to which a members' contribution applies. The statutory provisions concerning maximum pension accrual and contribution percentages, and the cap on pensionable income are included in the pension plan. In 2017, the cap was €103,317. The bank offers employees earning income in excess of the cap a net pension plan, which enables them to accrue pension on their gross salary exceeding this maximum amount.

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 2017

Fixed remuneration

Menno Snel, who resigned as Chair of the Managing Board owing to his appointment as State Secretary for Finance as at 25 October 2017, is subject to the remuneration policy established in 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 Managing Board member since 1 January 2012, are subject to the remuneration policy applicable prior to 2015 September 2015. Under this old 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. There was no indexation in 2017; after all, there was no CLA increase either.

Variable remuneration

In February 2018, the Remuneration and Appointment Committee assessed the actual performance of the Managing Board members against the performance criteria set out in their individual performance contracts. During the assessment, the Remuneration and Appointment Committee took into account that Lidwin van Velden and Frenk van der Vliet had jointly assumed the duties of the Chair of the Managing Board as from 25 October 2017 (the period following Menno Snel's resignation from that position). 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.

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 (7%)	In line with the targets in the annual Policy Memorandum	5% – almost fully achieved
Personal areas for attention and targets (2%)	Lidwin van Velden Frenk van der Vliet	1.5% 1.5%

The above assessment would result in 12.5% variable remuneration being awarded to Lidwin van Velden and Frenk van der Vliet. However, since they have jointly been performing the duties of the Chair of the Managing Board since October 2017, the Supervisory Board decided to award the maximum 15% variable remuneration. Two thirds (10%) of this will be paid this year, and one third (5%) comprises the deferred component to be awarded on a conditional basis. In line with the bonus payment scheme for employees of the bank, Menno Snel will not receive any variable remuneration owing to his premature departure in October 2017. The Supervisory Board is grateful to Menno for the contribution he made to bolstering the role of NWB Bank.

Remuneration of the Managing Board members

				Pension		
(in thousands of euros)	**Fixed remuneration**	**Variable remuneration**	**Payment of the deferred component of the 2014 variable remuneration**	**Contribution**	**Compensation in connection with the harmonisation of the pension scheme**	**Employer's contribution net pension scheme**
2017						
Menno Snel[1]	193	-	N/A	25	0	16
Lidwin van Velden	214	21	10	35	7	22
Frenk van der Vliet	214	21	9	34	10	18
Total	**621**	**42**	**19**	**94**	**17**	**56**

1) Retired from office on 25 October 2017 owing to his having been appointed State Secretary for Finance.

As in previous years, Ron Walkier waived his variable remuneration (this time the deferred component of the 2014 variable remuneration), given the current suspension of dividend distributions.

				Pension		
(in thousands of euros)	**Fixed remuneration**	**Variable remuneration**	**Payment of the deferred component of the 2013 variable remuneration**	**Contribution**	**Compensation in connection with the harmonisation of the pension scheme**	**Employer's contribution net pension scheme**
2016						
Menno Snel[2]	79	8	N/A	10	0	6
Lidwin van Velden	214	21	10	35	7	23
Frenk van der Vliet	214	21	10	33	10	19
Ron Walkier[3]	94	-[4]	-[4]	16	5	16
Total	601	50	20	94	22	64

2) Joined NWB Bank on 1 September 2016.
3) Retired with effect from the 26 April 2016 Annual General Meeting of Shareholders upon reaching retirement age.
4) As in previous years, Ron Walkier waived his variable remuneration given the current suspension of dividend distributions.

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

Deferred component of 2014 variable remuneration

In February 2018, the Remuneration and Appointment Committee compared NWB Bank's actual results with the long-term targets formulated in 2014 (Standard & Poor's and Moody's ratings for the bank must equal the sovereign rating for the State of the Netherlands, and the position in the market must be strengthened), concluding that those targets had been achieved. On the proposal of the Remuneration and Appointment Committee, the Supervisory Board decided to release the deferred component (see the above breakdown). As stated earlier, Ron Walkier, as former Chair of the Managing Board, waived the deferred component of his 2014 variable remuneration given the current suspension of dividend distributions.

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.

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 clawback provision.

To determine the variable remuneration under the bonus 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 ('conscious, engaged and reliable') are taken into account. Acting with due care and in the client's interest is also taken into account. Employees have a say in setting and adjusting their targets. An average variable remuneration under the bonus plan of 5.35% per employee (excluding the Managing Board members) was granted in 2017. The total variable remuneration for employees (for 2017) that will be paid in 2018 amounts to €406,835 (bonus payment plan and profit-sharing plan).

Abolition of variable remuneration effective 1 January 2018

The bank decided to abolish the variable remuneration schemes for employees (profit-sharing and bonus plans) on 1 January 2018. This is in line with the profile of a promotional bank and the public debate about the desirability of variable remuneration schemes. By way of compensation for the abolition of the variable remuneration, employees will receive an allowance of 10.745% in addition to their salaries. The reconversion to a percentage of the monthly salary was carried out on a cost-neutral basis. This means that the total of the structural costs for the bank following conversion is identical to the total of the structural costs before conversion. The allowance is based on 12 monthly salaries, a 13th month's salary payment and a holiday allowance. This allowance is not pensionable.

Pensions

The pension benefits of employees and 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 terms of employment, such as reimbursement of study expenses, a bicycle plan, a staff mortgage loan discount plan and supplementary incapacity for work insurance. Employees whose positions justify participation in the car scheme may do so or claim reimbursement under the scheme.

Pay ratio

The bank determines the pay ratio between the CEO and the other employees on the basis of 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 2017 comprises 12 monthly salaries, 8% holiday allowance and a 13th month's salary payment. The variable remuneration of employees in 2017 comprises a 7.5% profit distribution for 2016 and a performance bonus for 2016. The variable remuneration of Managing Board members in 2017 comprises the deferred variable remuneration for 2016. The current service costs consist of 'average pay costs up to €103,317 minus the employer's contribution', the 'employer's contribution above €103,317 minus the employee's contribution', and 'compensation for the old pension plan (prior to 2015), where applicable'.

The following principles applied:
Fixed remuneration: 12 monthly salaries, 8% holiday allowance and a 13th month's salary payment.
Variable remuneration: the variable remuneration for 2016 which was paid in 2017 and extrapolated to 12 months. The deferred component of the variable 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 4.06 for 2017 (2016: 4.22). This is a low ratio compared with that at other (financial) institutions.

SUPERVISORY BOARD REMUNERATION

During the General Meeting of Shareholders of 20 April 2017, on a proposal of the Supervisory Board, the shareholders amended the structure of Supervisory Board members' remuneration. The proposal was the result of the Supervisory Board's having compared the remuneration policy against best practices at comparable state shareholdings and businesses, based partly on a benchmark survey carried out by an external agency, on the recommendation of the Remuneration and Appointment Committee. The conclusion drawn from this survey was that the remuneration of the Supervisory Board members was rather low compared with that of their peers and that the system and structure of allowances for Supervisory Board members were not entirely in line with the market.

Although the range of duties, job content and level of complexity of Supervisory Board membership had increased in previous years and many similar businesses had set the remuneration of Supervisory Board members at distinctively higher levels, the Supervisory Board decided to maintain the current level of remuneration, including the old CLA percentage increase for 2015 and 2016. This implied stabilisation of the remuneration, 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 and no additional allowance was applied to the split-up of the Audit and Risk Committee into two separate committees, since it turned out that the composition of both committees was identical at that point.

Effective 1 January 2017, the following remuneration structure (excluding VAT), compared with the remuneration level for 2016, has been applied:

amounts including expense reimbursements

(in euros)	2017	2016
Chair + committees	36,500	36,486
Deputy Chair + Audit Committee + Risk Committee	22,667	24,986
Member + Audit Committee + Risk Committee	22,667	23,016
Member + Remuneration and Appointment Committee	22,667	20,516

The remuneration of the Supervisory Board has no variable components nor options plans. The remuneration policy will be reviewed every five years.

The remuneration of individual Supervisory Board members was as follows:

(in euros)	2017	2016
Age Bakker [1) 2) 3)]	36,500	35,736
Maurice Oostendorp [2) 4)]	22,667	24,986
Else Bos [2) 5)]	-	7,672
Peter Glas [3)]	22,667	19,766
Petra van Hoeken [2)]	22,667	23,016
Toon van der Klugt [3) 6)]	11,334	-
Frida van den Maagdenberg [3) 7)]	15,741	-
Manfred Schepers [2) 8)]	22,667	15,344
Albertine van Vliet-Kuiper [3) 9)]	7,556	19,766
Berend-Jan van Voorst tot Voorst [3) 10)]	-	6,589
Total	**161,799**	152,875

The above amounts include general expense reimbursements and exclude 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
5) Else Bos retired from office on 26 April 2016
6) Toon van der Klugt was appointed Supervisory Board member on 17 August 2017
7) Frida van den Maagdenberg was appointed Supervisory Board member on 20 April 2017. She has decided to transfer her remuneration to the Academic Medical Centre, where she is a member of the Executive Board
8) Manfred Schepers was appointed Supervisory Board member on 26 April 2016
9) Albertine van Vliet retired from office on 20 April 2017
10) Berend-Jan van Voorst tot Voorst retired from office on 26 April 2016

In the period following Menno Snel's departure from office, during which two Managing Board members are temporarily constituting the Managing Board, Age Bakker, as Chair of the Supervisory Board has regular coordination meetings with the Managing Board members. He receives an attendance fee of €750 for each coordination meeting.

REGULATIONS AND PROPORTIONALITY

The bank's remuneration policy is in line with the applicable national and international regulations, including DNB's Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014 (Rbb) implementing 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. On 4 September 2017, DNB published a draft Rbb for 2017. The final 2017 Rbb entered into force on 8 December 2017. The bank is in compliance with the 2017 Rbb, which is based on the CRD IV remuneration rules.

With respect to the application of a number of elements of the Rbb, the bank invokes the proportionality principle for 2017. This means that the bank does not apply certain elements in view of its low risk profile and the modest level 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 a limited number of 'identified staff' members, no listed shares and that developing a programme or plan for 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 deferred component of the variable remuneration should amount to at least 40%. The variable remuneration of the Managing Board comprises a smaller deferred component (one third) and the variable remuneration of employees has no deferred component at all. Again, application of the rule would involve disproportionately high costs and administrative expenses. With the abolition of the variable remuneration rules for employees on 1 January 2018, the proportionality principle will no longer be invoked with regard to the remuneration policy for employees.

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FINANCIAL STATEMENTS

STATEMENT OF INCOME

for the year ended 31 December 2017

(in millions of euros)	Notes	2017	2016
Interest and similar income		**1,615**	1,680
Interest and similar expenses		**1,339**	1,462
Net interest income	1	**276**	218
Results from financial transactions	2	**-58**	-25
Other operating income		**0**	0
Total operating income		**218**	193
Employee benefits expense	3	**8**	8
Other administrative expenses	4	**10**	9
Employee benefits expense and other administrative expenses		**18**	17
Depreciation, amortisation and value adjustments of tangible and intangible assets	5	**2**	2
Bank tax and resolution levy	6	**28**	25
Total operating expenses		**48**	44
Profit from ordinary operations before tax		**170**	149
Tax on profit from ordinary operations	7	**47**	42
Net profit		**123**	107

BALANCE SHEET

as at 31 December 2017 before profit appropriation

(in millions of euros)	Notes	2017	2016
Assets			
Cash, cash equivalents and deposits at the Central Bank	8	**9,638**	7,246
Banks	9	**8,755**	10,508
Loans and receivables	10	**60,973**	64,496
Interest-bearing securities	11	**3,697**	3,925
Intangible assets	12	**2**	2
Tangible assets	13	**6**	6
Income tax	21	**0**	-
Other assets	14	**0**	0
Derivative assets	15	**4,048**	8,228
Prepayments	16	**4**	3
Total assets		**87,123**	94,414
Liabilities			
Banks	17	**1,154**	2,692
Funds entrusted	18	**6,107**	6,060
Debt securities	19	**66,418**	67,232
Provisions	20	**32**	30
Income tax	21	**-**	22
Other liabilities	22	**55**	55
Derivative liabilities	23	**11,402**	16,482
Accruals	24	**0**	8
		85,168	92,581
Subordinated debt	25	**327**	326
Paid-up and called-up share capital	26	**7**	7
Revaluation reserves	27	**4**	3
Other reserves	28	**1,494**	1,390
Unappropriated profit for the year	29	**123**	107
Equity		**1,628**	1,507
Total liabilities		**87,123**	94,414
Irrevocable commitments	30	**4,078**	3,865
Contingent liabilities	31	**41**	60

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

(in millions of euros)	Notes	**2017**	2016
Net changes in the revaluation reserves	27	**1**	3
Net changes in other reserves	28	**-3**	-2
Income tax on income and expenses recognised directly in equity		**0**	0
Income and expenses recognised directly in equity		**-2**	1
Net profit		**123**	107
Comprehensive income		**121**	108

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(in millions of euros)	Paid-up share capital	Revaluation reserves	Other reserve	Unappropri-ated profit for the year	Total
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**
As at 1 January 2017	7	3	1,390	107	**1,507**
Profit appropriation of previous year			107	-107	**-**
Dividend			-		**-**
Direct change in the value of equity		1	-3		**-2**
Profit for the year				123	**123**
As at 31 December 2017	7	4	1,494	123	**1,628**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

(in millions of euros)		2017	2016
Profit before income tax		**171**	149
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 hedge accounting		**-14**	-234
Change in bank loans and receivables not available on demand	9,17	**218**	-1,309
Change in public sector loans and receivables	10	**779**	1,169
Change in funds entrusted	18	**46**	686
Change in other assets and liabilities		**-3,232**	-213
Net cash flows used in operating/banking activities		**-2,030**	250
Additions to interest-bearing securities	11	**-569**	-1,362
Sale and redemptions of interest-bearing securities	11	**777**	1,323
		208	-39
Additions to tangible assets	13	**-1**	-1
Disposals	13	**0**	0
Additions to intangible assets	12	**-1**	-1
Net cash flows used in investing activities		**206**	-41
Long-term debt securities issued	19	**12,453**	11,372
Redemption of long-term debt securities	19	**-8,179**	-7,701
Short-term debt securities issued	19	**117,512**	36,078
Redemption of short-term debt securities	19	**-117,571**	-39,599
Subordinated debt issued	19	**0**	121
		4,215	271
Dividend paid	29	**-**	-
Net cash flow from financing activities		**4,215**	271
Net cash flow		**2,391**	480

(in millions of euros)	**2017**	2016
Cash flow	**2,391**	480
Cash and cash equivalents as at 1 January	**7,246**	6,766
Cash and cash equivalents as at 31 December	**9,637**	7,246

In 2017, the interest paid amounted to €1,224 million (2016: €1,295 million) and the interest received amounted to €1,504 million (2016: €1,623 million). These amounts are included under Other assets and liabilities in the statement of cash flows. In 2017, the income tax paid amounted to €50.0 million (2016: €15.6 million) and the bank tax paid amounted to €19.9 million (2016: €19.8 million).

CORPORATE INFORMATION

The 2017 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 15 March 2018, and will be submitted for approval to the Annual General Meeting of Shareholders (AGM) on 19 April 2018.

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. The bank finances water authorities, municipal and provincial authorities as well as other public sector bodies, such as housing associations, 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.

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 principal is recognised at the settlement date.

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

Derecognition of financial assets and liabilities

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

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

Measurement
Upon initial recognition, financial assets and liabilities are stated at fair value, including 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 a transaction.
If a relevant middle rate is available, it is used as the best indication of fair value. For the majority of NWB Bank's financial instruments, the fair value cannot be established on the basis of a relevant middle rate because there is no listing or active market. NWB Bank calculates the fair value of these other financial instruments using models.

The models use various assumptions relating to the discount rate and the timing and 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 that are included in an economic hedge relationship covering interest rate and foreign exchange risks. It involves a one-on-one relationship between the hedged instrument and the hedged item. Macro hedging relates to a group of transactions that is hedged, for interest rate risk purposes, by using a group of derivative financial instruments. There is not always a one-on-one relationship between the hedged item and the hedging instrument at an individual level. It is demonstrated at a portfolio level that the derivative financial instruments in question 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 on 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. The interest-bearing securities 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 purchased interest-bearing securities with fixed or determinable payments which NWB Bank firmly intends to hold to maturity, and in respect of which it has the contractual and economic ability to do so, are stated at amortised cost using the effective interest method.

Other listed 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 assets

Tangible 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 net of 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.

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, exchange rate, creditworthiness or other variable (the underlying value);
- no net initial investment or only a minor net initial investment is required in comparison with other types of contracts that respond in a similar way to changes in the market factors mentioned; and
- 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 contracts to which they belong and carried at fair value, with changes in value being taking to profit or loss. Contracts are assessed only when the transaction is effected, unless the terms of a contract change such that expected cash flows are significantly impacted.

The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised.

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 equals 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, which is 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

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

Income tax

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

Current tax assets and liabilities

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

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

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

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.

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 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.

	2017	2016
Interest income on cash, cash equivalents and deposits at the Central Bank and loans and receivables at amortised cost	**1,581,441**	1,655,038
Interest income on interest-bearing securities	**27,251**	21,873
Commission	**477**	1,404
Negative interest expense	**5,556**	1,998
Interest income	**1,614,725**	1,680,313
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	**-407,542**	-551,098
Derivatives (net interest income/expense)	**-815,045**	-832,447
Negative interest expense	**-116,604**	-78,437
Interest expense	**-1,339,191**	-1,461,982
Net interest income	**275,534**	218,331

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 that are included in an economic hedge relationship covering interest rate and foreign exchange risks. It involves a one-on-one relationship between the hedged instrument and the hedged item. Macro hedging relates to a group of transactions that is hedged, for interest rate risk purposes, by using a group of derivative financial instruments. While there is not always a one-on-one relationship between the hedged item and the hedging instrument at an individual level, it is demonstrated at a portfolio level that the derivative financial instruments in question set off the fair value changes caused by interest rate fluctuations.

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

	2017	2016
Changes in the fair value of derivatives included in macro hedge accounting	**2,704,465**	-2,107,746
Revaluation of financial assets and liabilities included in hedge accounting	**-2,707,139**	2,106,024
Macro hedge accounting ineffectiveness	**-2,674**	-1,722
Micro hedge accounting ineffectiveness	**-129**	32
Total hedge accounting ineffectiveness	**-2,803**	-1,690
Other changes in the fair value of restructured derivatives included in hedge accounting	**-63,114**	-54,477
Changes in the fair value of derivatives not included in hedge accounting	**3,671**	554
Change in counterparty credit risk (CVA/DVA)	**-939**	-487
Results from maturity extensions and early redemptions	**735**	24,902
Other fair value changes	**4,260**	6,646
Total	**-58,190**	-24,522

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 entering into or terminating the hedge relationship, premiums and fees received and paid upon the settlement of derivative contracts, realised revaluation gains on the sale of interest-bearing securities and commission. The fair value when applying hedge accounting to the financial instruments is €16,744 million at 31 December 2017 (31 December 2016: €19,302 million) on the assets side of the balance sheet, and €12,836 million at 31 December 2017 (31 December 2016: €18,555 million) on the liabilities side.

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 57.2 at the end of the financial year (2016: 53.2). Two FTEs are members of the Managing Board, nine are department heads and 46.2 are staff members (2016: three members of the Managing Board, nine department heads and 41.2 staff members).

	2017	2016
Wages and salaries	**5,267**	4,879
Pension costs	**1,868**	1,489
Other social security costs	**538**	473
Other staff costs	**664**	820
	8,337	7,661

In 2017, salary costs rose as a result of an increase in headcount and index-linked negotiated wages plus annual increments.

Upon joining the national government in October 2017, Menno Snel resigned as Chair of the Managing Board. The remuneration of the Managing Board members, including regular pension costs and other specific components as shown in the table below, amounted to €865,000 in 2017 (2016: €902,000).

	Fixed remuneration	Variable remuneration	Deferred component of variable remuneration[1]	Pension contribution	Other	Total
2017						
Menno Snel	193	-	-	25	21	239
Lidwin van Velden	214	21	11	35	34	315
Frenk van der Vliet	214	21	11	34	31	311
Total	**621**	**42**	**22**	**94**	**86**	**865**

	Fixed remuneration	Variable remuneration	Deferred component of variable remuneration[2]	Pension contribution	Other	Total
2016						
Menno Snel	79	8	4	10	10	111
Lidwin van Velden	214	21	11	35	37	318
Frenk van der Vliet	214	21	11	33	34	313
Ron Walkier	94	-	5	16	45	160
Total	**601**	**50**	**31**	**94**	**126**	**902**

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

1) This is the deferred component of the variable remuneration for 2017, to be assessed in 2021.

2) This is the deferred component of the variable remuneration for 2016, to be assessed in 2020.

The Supervisory Board has decided to definitively grant the deferred component of the variable remuneration for 2014. The deferred component for 2014 definitively granted to Lidwin van Velden amounts to €10,000 (2013: €10,000) and the component definitively granted to Frenk van der Vliet amounts to €9,000 (2013: €10,000).

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 2017 (2016: €3,000). Menno Snel received a taxed expense allowance of €2,000 in 2017 (2016: €3,000).

A staff mortgage loan discount plan: in 2017, this untaxed allowance amounted to €2,000 (2016: €1,000) for Menno Snel, €2,000 (2016: €5,000) for Lidwin van Velden, and €1,000 (2016: €1000) for Frenk van der Vliet.

A contribution for the net pension scheme: in 2017, this taxed allowance amounted to €16,000 (2016: €6,000) for Menno Snel, €23,000 (2016: €23,000) for Lidwin van Velden, and €18,000 (2016: €19,000) for Frenk van der Vliet.

Compensation for the harmonisation of the pension scheme: in 2017, this taxed allowance amounted to €7,000 (2016: €7,000) and €10,000 for Frenk van der Vliet (2016: €10,000).

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 (2016: seven) Supervisory Board members, which is also included in this item, amounted to €206,000 (2016: €185,000).

Remuneration of the Supervisory Board members

(in thousands of euros)	2017	2016
Age Bakker	50	45
Else Bos	-	10
Peter Glas	29	25
Petra van Hoeken	28	28
Frida van den Maagdenberg	19	-
Toon van der Klugt	14	-
Maurice Oostendorp	28	31
Albertine van Vliet-Kuiper	9	23
Manfred Schepers	29	15
Berend-Jan van Voorst tot Voorst	-	8
	206	185

The above amounts include allowances for participation in committees, general 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.

	2017	2016
Audit of the financial statements	271	248
Other assurance engagements	188	175
	459	423

The auditor's costs relate to the relevant financial year regardless of whether the procedures were performed by the external auditor and the audit firm during the financial year. In addition to the statutory audit, the auditor performs several other assurance services. Those other assurance services comprise a review of interim financial information, a review of non-financial information as set out in this annual report, the procedures involved in reporting to the supervisory authority and procedures pertaining to the prospectus and the issue of securities.

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 2017 and 2016 are based on the balance sheet at year-end 2016 and 2015, respectively, and are charged to the profit for 2017 and 2016, respectively. Bank tax is based on the ratio of current liabilities at the end of the previous financial year amounting to €22,898 million (2016: €25,835 million) and long-term liabilities for the previous financial year amounting to €70,009 million (2016: €64,080 million). The total amount of bank tax paid in 2017 was €19.9 million (2016: €19.8 million).

Under the Bank Recovery and Resolution Directive (BRRD), the bank is required to pay a resolution levy. The levy for the year 2017 was paid to the Single Resolution Fund and amounted to €9.1 million (2016: €6.9 million). Of this amount, €1.4 million was paid in the form of Irrevocable Payment Commitments (2016: €1.1 million) and €7.7 million was charged to the profit for 2017 (2016: €5.8 million).

7 INCOME TAX EXPENSE

	2017	2016
Profit before income tax	**170,008**	149,362
Income tax at 25.0%	**42,502**	37,340
Non-deductible expenses relating to bank tax	**4,984**	4,943
Other non-deductible expenses and adjustments for prior financial years	**-5**	-274
Income tax expense	**47,481**	42,009
Effective tax burden (%)	**27.9%**	28.1%

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

	2017	2016
Current tax		
For the current financial year	**49,813**	37,756
Income tax adjustments for prior financial years	**0**	-269
	49,813	37,487
Deferred tax		
Release of deferred tax asset arising when the bank first became liable for tax	**-**	1,486
Release/addition relating to provision for pensions	**-1,106**	-465
Income tax on income and expenses recognised directly in equity	**889**	280
Results from 'basisrentelening' loans deferred for tax purposes	**-786**	-786
Results from maturity extensions deferred for tax purposes	**-1,329**	4,007
	-2,332	4,522
Income tax expense	**47,481**	42,009

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 which is not at the bank's disposal.

This item can be broken down as follows:

	2017	2016
Balances payable on demand	**146**	55
Receivables under collateral arrangements	**8,654,387**	10,408,494
Receivables guaranteed by the Dutch government	**99,971**	99,686
Total	**8,754,504**	10,508,235

10 LOANS AND RECEIVABLES

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

	2017	2016
As at 1 January	**64,496,020**	63,575,761
Newly granted long-term loans	**5,737,110**	5,896,353
Newly granted short-term loans	**9,299,884**	11,791,000
Redemptions	**-15,631,398**	-18,833,930
Value adjustment for fair value hedge accounting	**-2,928,155**	2,066,775
Value adjustment for separated derivatives embedded in debt securities	**-532**	61
As at 31 December	**60,972,929**	64,496,020

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

	2017	2016
Receivables from or guaranteed by the Dutch government	**49,681,979**	50,368,606
Other receivables from the public sector and miscellaneous	**619,648**	527,423
Value adjustment for fair value hedge accounting	**10,674,772**	13,602,927
Fair value of separated derivatives embedded in loans and receivables	**-3,470**	-2,938
	60,972,929	64,496,020

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

	2017	2016
Water authorities	**6,873,545**	6,706,846
Municipal authorities	**6,464,516**	6,542,668
Social housing	**31,655,797**	32,462,827
Other	**4,688,121**	4,656,265
	49,681,979	50,368,606

Given the risk profile of NWB Bank's counterparties, a provision for uncollectible receivables is not necessary at the balance sheet date. At the end of 2017, an exposure amounting to €17 million (2016: €23 million) was classified as 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 €11.4 billion at the end of 2017 (€11.5 billion at the end of 2016).
Of the loans and receivables, a nominal €2.3 billion have a remaining term to maturity of less than 12 months (2016: €2.5 billion).

11 INTEREST-BEARING SECURITIES

This item can be broken down as follows:

	2017	2016
Interest-bearing securities held to maturity	**1,805,659**	2,261,370
Other listed interest-bearing securities	**1,288,433**	1,289,865
Other unlisted interest-bearing securities	**603,345**	373,274
	3,697,437	3,924,509

The movements in interest-bearing securities in 2017 and 2016 were as follows:

	Public sector bodies	Other	Total
As at 1 January 2017	1,094,776	2,829,733	**3,924,509**
Purchases	423,000	146,000	**569,000**
Sales and redemptions	-327,984	-448,750	**-776,734**
Value changes in Other interest-bearing securities	-14,594	-4,744	**-19,338**
As at 31 December 2017	1,175,198	2,522,239	**3,697,437**

The collateral value of the portion of the interest-bearing securities portfolio contributed as collateral to DNB was €0.4 billion as at 31 December 2017 (€0.9 billion as at 31 December 2016). Furthermore in 2016 €0.3 billion (2016: €0.2 billion) in collateral was issued to a banking counterparty. Of the Interest-bearing securities, a nominal €354 million (2016: €303 million) have a remaining term to maturity of less than twelve months.

The cumulative amounts as at 31 December are 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**

12 INTANGIBLE ASSETS

This item comprises capitalised expenses related to software. The breakdown of this item in 2017 and 2016 is as follows.

	2017	2016
Carrying amount as at 1 January	**1,944**	2,611
Additions	**1,238**	613
Amortisation	**-829**	-1,280
Carrying amount as at 31 December	**2,353**	1,944

The cumulative amounts as at 31 December are as follows:

	2017	2016
Additions	**10,604**	9,366
Amortisation	**-8,251**	-7,422
Carrying amount as at 31 December	**2,353**	1,944

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 2017 is as follows:

	Property in use by the bank	Other equipment	Total
Carrying amount as at 31 December 2016	5,060	984	**6,044**
Additions 2017	7	640	**647**
Disposals 2017	-	-65	**-65**
Depreciation in 2017	-595	-377	**-972**
Carrying amount as at 31 December 2017	4,472	1,182	**5,564**

The cumulative amounts as at 31 December 2017 were as follows:

	Property in use by the bank	Other equipment	Total
Additions	9,796	8,340	**18,136**
Depreciation	-6,877	-7,158	**-14,035**
	2,919	1,182	**4,101**
Revaluations	1,553	-	**1,553**
Carrying amount as at 31 December 2017	4,472	1,182	**5,564**

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 2016 were as follows:

	Property in use by the bank	Other equipment	Total
Additions	9,789	7,765	**17,554**
Depreciation	-6,282	-6,781	**-13,063**
	3,507	984	**4,491**
Revaluations	1,553	-	**1,553**
Carrying amount as at 31 December 2016	5,060	984	**6,044**

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 2017 breakdown of derivatives below, derivatives totalling €68,960 (2016: €93,298) were not included in hedge accounting.

Breakdown by remaining term to maturity of fair values as at 31 December 2017:

	<3 months	3-12 months	1-5 years	>5 years	2017 Total
Interest rate swaps[1]	42,245	36,690	435,298	1,445,960	**1,960,193**
Currency swaps	247,501	184,335	637,824	773,677	**1,843,337**
Caps, floors and swaptions	-	-	68	244,772	**244,840**
Total	289,746	221,025	1,073,190	2,464,409	**4,048,370**

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised.

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**

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.

The Exposure Central Clearing item consists of the balance of the daily set-off of the derivatives against the collateral received or paid with central counterparties.

This item can be broken down as follows.

	2017	2016
Loans taken out at banks	**646,523**	410,713
Value adjustment for fair value hedge accounting	**-11,959**	294
Liabilities under collateral arrangements	**509,791**	2,280,601
Exposure Central Clearing	**9,639**	-
	1,153,994	2,691,608

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.

	2017	2016
Funds entrusted	**5,363,502**	5,319,370
Value adjustment for fair value hedge accounting	**743,118**	740,626
	6,106,620	6,059,996

19 DEBT SECURITIES

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

	2017	2016
Bond loans	**55,860,727**	54,926,037
Short-term debt securities	**9,592,834**	10,422,258
Value adjustment for fair value hedge accounting	**959,459**	1,923,522
Fair value of separated derivatives embedded in loans and receivables	**4,545**	-39,502
	66,417,565	67,232,315

Of the total amount in long-term debt securities issued, a nominal €5.7 billion (2016: €5.3 billion) carries a variable interest rate. Of the long-term debt securities, a nominal €9.7 billion (2016: €8.7 billion) have a remaining term to maturity of less than 12 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.

	2017	2016
As at 1 January	**19,426**	14,544
Release of deferred tax liability arising when the bank first became liable for tax	**-**	1,486
Change as a result of tax adjustments for previous years	**-**	-
Change as a result of temporary differences in the financial year recognised in profit or loss	**-849**	175
Results from 'basisrentelening' loans deferred for tax purposes	**-786**	-786
Results from maturity extensions deferred for tax purposes	**-1,330**	4,007
As at 31 December	**16,461**	19,426

Pension provision

The movements in the pension provision are as follows.

	2017	2016
Current service costs	1,548	1,165
Past service costs	-	-
Interest cost	701	763
Expected return on plan assets	-507	-556
Administrative and other costs	4	4
Employee benefits expenses	1,746	1,376

	2017	2016
Defined benefit obligation	42,732	37,335
Fair value of plan assets	-27,446	-26,473
Employee benefits provision	15,286	10,862

	2017	2016
Opening balance defined benefit obligation	37,335	32,321
Interest cost	701	763
Current service costs	1,548	1,165
Benefits paid	-937	-1,064
Employee contributions	58	35
Gain (loss) caused by changes (in assumptions) in plan assets	4,027	4,115
Closing balance defined benefit obligation	42,732	37,335

	2017	2016
Opening balance fair value of plan assets	26,473	23,318
Employer contributions	878	1,345
Employee contributions	58	35
Benefits paid	-937	-1,064
Return including interest income	974	2,839
Fair value of plan assets as at 31 December	27,446	26,473

The pensionable salary has been maximised for tax purposes at €105,000.

The projected employer contributions for 2018 to the defined benefit plans amount to €2.1 million at the end of 2017 (2016: €1.7 million).

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

	2017	2016
Discount rate	**1.80%**	1.90%
Expected rate of return on assets	**1.80%**	1.90%
Future salary/pay increases	**1.90%**	1.50%
Future pension increases	**1.90%**	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 2017 and 2016 can be broken down as follows.

	2017	2016
2016	**-**	21,850
2017	**-177**	-
Carrying amount as at 31 December	**-177**	21,850

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

	2017	2016
Current tax expense	**49,813**	37,756
Advances paid 2017	**-49,990**	-15,906
Total	**-177**	21,850

22 OTHER LIABILITIES

This item can be broken down as follows.

	2017	2016
Prepaid interest and redemptions	**34,083**	51,532
Other liabilities	**21,583**	3,476
Total	**55,666**	55,008

23 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 2017 breakdown of derivatives below, derivatives totalling €67,425 (2016: €90,882) were not included in hedge accounting.

Breakdown by remaining term to maturity of negative fair values as at 31 December 2017:

	<3 months	3-12 months	1-5 years	>5 years	2017 Total
Interest rate swaps [1]	14,687	77,439	559,718	8,889,973	**9,541,817**
Currency swaps	197,608	304,079	762,134	359,319	**1,623,140**
Caps, floors and swaptions	-	-	68	236,826	**236,894**
Total	212,295	381,518	1,321,920	9,486,118	**11,401,851**

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised.

Breakdown by remaining term to maturity of negative fair values 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**

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. No new hybrid capital was raised in 2017.

The loans were issued by Dutch public sector parties and subordinated to receivables from creditors with a higher order of priority than ordinary shares. In addition, 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 notional 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:

	2017	2016
As at 1 January	**325,941**	202,067
Subordinate debt issued	**-**	120,500
Change in accrued interest and premium	**568**	3,374
As at 31 December	**326,509**	325,941

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 2017:

	Issued	Paid up
A shares		
As at 31 December 2017 (50,478 shares)	5,805	5,805
B shares		
As at 31 December 2017 (8,511 shares)	3,915	
Of which unpaid: (74% of 8,510 shares)	-2,896	
		1,019
Total paid up as at 31 December 2017		**6,824**
Total paid up as at 31 December 2016		**6,824**

27 REVALUATION RESERVES

The movements in the revaluation reserves in 2017 and 2016 were as follows.

	Revaluation reserve interest-bearing securities	Other revaluation reserves	Total
As at 1 January 2016	265	260	**525**
Changes in the unrealised value of interest-bearing securities	1,481	-	**1,481**
Changes in the value of tangible assets	-	971	**971**
As at 31 December 2016	1,746	1,231	**2,977**
Changes in the unrealised value of interest-bearing securities	772	-	**772**
As at 31 December 2017	2,518	1,231	**3,749**

28 OTHER RESERVES

The movements in other reserves were as follows.

As at 1 January 2016	**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**
Appropriation of 2016 profit	107,352
Distribution for 2016	-
Changes in value as part of the pension provision	-2,667
As at 31 December 2017	**1,494,567**

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)		**2017**		2016
Profit for the year		**122,527**		107,352
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		**122,527**		107,352
		122,527		107,352

30 IRREVOCABLE COMMITMENTS

These commitments relate to:

	2017	2016
Loans granted but not yet paid	**1,113,779**	1,026,669
Collateral commitments	**-**	445,460
Unused current account overdraft facilities	**911,684**	867,975
Unused financing facilities	**2,050,053**	1,522,835
Guarantees issued	**2,389**	2,272
	4,077,905	3,865,211

The collateral commitments and 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 €41 million (2016: €60 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 inputs 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. The 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:
1) generally grants the loans that it holds until they mature, and
2) 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 31-12-2017	**Fair value 31-12-2017**	Carrying amount 31-12-2016	Fair value 31-12-2016
Assets				
Cash, cash equivalents and deposits at the Central Bank	**9,637,531**	**9,637,531**	7,246,425	7,246,425
Banks	**8,754,503**	**8,754,503**	10,508,235	10,508,235
Loans and receivables	**60,972,929**	**63,271,869**	64,496,020	66,511,863
Interest-bearing securities	**3,697,437**	**3,703,525**	3,924,509	3,964,360
Derivative assets [1]	**4,048,370**	**4,048,370**	8,228,183	8,228,183
Liabilities				
Banks	**1,153,994**	**1,148,184**	2,691,608	2,685,798
Funds entrusted	**6,106,620**	**6,091,336**	6,059,996	6,044,713
Debt securities	**66,417,565**	**66,957,424**	67,232,315	67,772,174
Subordinated debt	**326,509**	**381,595**	325,941	395,319
Derivative liabilities [1]	**11,401,851**	**11,401,851**	16,482,262	16,482,262

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised.

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.

31 December 2017 (in millions of euros)	**Measurement based on market prices using data available in the market**	**Measurement based on models using data unavailable in the market**	**Measurement based on models**
Assets			
Other listed interest-bearing securities	1,288	-	-
Derivative assets [1]	-	4,048	-
Separated derivatives	-	-3	-
Liabilities			
Derivative liabilities [1]	-	11,402	-
Separated derivatives	-	5	-

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised.

31 December 2017 (in millions of euros)	**Measurement based on market prices using data available in the market**	**Measurement based on models using data unavailable in the market**	**Measurement based on models**
Assets			
Other listed interest-bearing securities	1,290	-	-
Derivative assets	-	8,228	-
Separated derivatives	-	-3	-
Liabilities			
Derivative liabilities	-	16,482	-
Separated derivatives	-	-40	-

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

Financial derivatives

	2017 1)	2016
Notional amounts of interest rate derivatives		
Breakdown according to remaining terms to maturity:		
Up to one year	**12,062,209**	6,605,347
Between one and five years	**20,775,740**	24,070,609
More than five years	**53,263,813**	50,053,415
	86,101,762	80,729,371
Notional amounts of currency derivatives		
Breakdown according to remaining terms to maturity:		
Up to one year	**16,851,793**	14,647,133
Between one and five years	**13,695,746**	12,449,604
More than five years	**6,575,926**	8,108,379
	37,123,465	35,205,116

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised. As at 31-12-2017 the amount of €31,082 million was included in the notional amounts of interest derivatives for these items.

The notional amounts of the caps and floors total €50 million (2016: €93 million) and those of the swaptions €922 million (2016: €922 million). These derivatives are included under the interest rate derivatives in the above table.

33 RISK MANAGEMENT

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.

The bank has a risk appetite framework in place which is updated annually and sets out the degree and areas of risk NWB Bank is prepared to accept in achieving its strategic objectives. The risk appetite 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 taking out 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.

However, the bank is prepared to adopt a strategic interest rate risk position and thereby achieve a result aimed at realising the level of return on equity agreed with the 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. The surcharge is included in the bank's Fund Transfer Pricing model, which is applied to new lending. The strategic position is independent of any vision on interest rate developments and is determined on a quarterly basis.

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 which follows from the bank's risk appetite. These limits are related to the strategic interest rate position.

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 2017, it was within the limit set.

Earnings at Risk

In addition to the DV01 analysis, which provides an 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 2017, 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.

	Total	3 months or shorter	3 months to 1 year	1 year to 5 years	More than 5 years
31 December 2017					
(in millions of euros)					
Assets					
Loans and receivables	**84,988**	26,628	4,538	15,083	38,739
Interest-bearing securities	**3,721**	1,618	311	1,128	664
Fixed-interest derivative liabilities	**34,714**	3,619	5,739	15,138	10,218
Variable-interest derivative liabilities	**-30,261**	-25,705	-4,828	178	93
Total assets	**93,161**	6,160	5,760	31,527	49,714
Liabilities					
Banks, funds entrusted and debt securities	**74,780**	14,403	8,672	26,454	25,251
Subordinated debt	**384**	1	8	38	337
Fixed-interest derivative liabilities	**17,569**	-4,501	-3,379	3,821	21,628
Variable interest derivative liabilities	**-2,880**	-543	-2,388	2	48
Total liabilities	**89,853**	9,360	2,913	30,315	47,264
Total assets less liabilities in 2017	**3,308**	-3,200	2,847	1,212	2,449
Total assets less liabilities in 2016	**3,239**	-610	636	666	2,546

The present value of all instruments is presented on the basis of the swap curve. The derivatives plus centrally cleared 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 an additional insight into the interest rate risk. A common scenario is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -100 basis points (bp) and +100 bp. The effect of this sudden change in the interest rate as at 31 December 2017 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 €96 million higher (2016: €101 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	**-91**	5	-96
Interest rate shock of -100 bp	**40**	-6	46

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 Dutch State. 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 portfolio contributed as collateral to DNB was €11.8 billion as at 31 December 2017 (€12.4 billion as at 31 December 2016). However, NWB Bank did not call on 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 programme capped at $15 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 2017 totalled €9.6 billion (as at 31 December 2016: €10.4 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 (Capital Requirements Directive IV/Capital Requirements Regulation) 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 LCR, another liquidity risk will also 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 2017. The LCR was 178% at the balance sheet date (2016: 146%) and the NSFR 126% (2016: 123%).

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

	Total	3 months or shorter	3 months to 1 year	1 year 5 years	More than 5 years
31 December 2017					
(in millions of euros)					
Assets					
Cash, cash equivalents and deposits at the Central Bank	**9,638**	9,638	-	-	-
Banks	**8,757**	-3	10	41	8,709
Loans and receivables	**76,167**	1,600	6,199	22,535	45,833
Interest-bearing securities	**3,778**	916	310	1,829	723
Intangible assets	2	-	-	2	0
Tangible assets	6	-	-	1	5
Income tax	0	0	-	-	-
Derivative assets	**10,761**	556	511	2,263	7,431
Other assets	**4**	1	1	0	2
Prepayments and accrued income	**0**	0	-	-	-
Total as at 31 December 2017	**109,113**	12,708	7,031	26,671	62,703
Total as at 31 December 2016	**113,026**	9,610	7,423	31,726	64,267
Liabilities					
Banks	**1,243**	29	5	122	1,086
Funds entrusted	**11,442**	28	61	838	10,515
Debt securities	**72,494**	10,882	9,374	27,264	24,974
Subordinated debt	**401**	1	8	38	354
Derivative liabilities	**22,926**	387	986	3,925	17,628
Pension provisions	**15**	-	-	-	15
Deferred income tax	**16**	-	-	16	-
Income tax	**0**	-	0	-	-
Other liabilities	**56**	52	4	-	-
Accruals	**1**	0	1	-	-
Equity	**1,628**	-	-	-	1,628
Total as at 31 December 2017	**110,222**	11,379	10,439	32,204	56,200
Total as at 31 December 2016	**111,551**	10,567	11,362	32,424	57,198

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, 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 banks for money market transactions and currency and interest rate swaps, which result in counterparty risk.

In financing the Dutch public authorities and institutions under guarantee from the Dutch government no limits are applied by the bank; 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. The Corporate Social Responsibility aspects of credit risk management policy are set out in the Corporate Social Responsibility section.

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 €91.2 billion at the end of 2017 (€98.3 billion at the end of 2016).

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

2017		Europe			North America	Total	RWA
		NL	EU	Non-EU			
Central governments	0-50%	9,815	100	-	-	**9,915**	
Regional government	0%	17,241	26	-	-	**17,267**	-
Institutions with delegated government duties	20-100%	48,473	50	-	-	**48,523**	663
Development banks	0%	-	60	-	-	**60**	-
International organisations	0%	-	258	-	-	**258**	-
Banking counterparties*	2-50%	5,006	4,483	309	998	**10,796**	456
RMBS (NHG) notes*	20-100%	1,711	-	-	-	**1,711**	420
Covered bonds	10%	458	-	-	-	**458**	46
Other	0-100%	8	-	-	-	**8**	8
Total		**82,712**	**4,977**	**309**	**998**	**88,996**	**1,593**

2016		Europe			North America	Total	RWA
		NL	EU	Non-EU			
Central governments	0-50%	7,483	46	-	-	**7,528**	23
Regional government	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**

* Based on external rating (External Credit Assessment Institution)

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 RMBS with a government-backed National Mortgage Guarantee (NHG) notes come under the 20% weighting and 50% weighting categories 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)	2017 Nominal value	Balance sheet value	2016 Nominal value	Balance sheet value
Water authorities	**6,187**	**7,106**	5,953	7,171
Municipal authorities	**5,932**	**6,793**	6,268	7,389
Other public authorities	**269**	**355**	291	393
Social housing	**29,973**	**40,363**	31,005	43,367
Healthcare institutions	**3,092**	**3,763**	3,277	4,107
Other borrowers under government guarantee	**431**	**476**	634	711
Joint schemes	**706**	**730**	219	245
Government-controlled public limited liability companies	**408**	**428**	350	375
Public-private partnerships	**140**	**139**	109	107
Credit institutions	**100**	**100**	100	100
Other	**42**	**45**	54	57
Total	**47,280**	**60,298**	48,260	64,022

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 guaranteed by the public authorities. The bank has never suffered a loan loss. 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), were of a technical nature and of a very short duration.

In 2017, NWB Bank held notes of RMBS programmes from five Dutch originators in its portfolio, 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 Standard Approach to Securitisations as set out in Article 251 of the CRR, in which the ratings issued by S&P, Moody's or Fitch are used to indicate credit risk. The table below shows the data as at 31 December 2017.

Rating	Nominal amount (million)	Expected expiry date	Class
AAA	1.456	2021	A
A+	251	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 (unless they have been cleared centrally) 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 ISDA schedules and CSAs which ensure that netting agreements apply. In 2017, CSAs concluded with the majority of counterparties were amended to bring them into line with the new market standard (Variation Margin CSA, or VM CSA), to ensure compliance with the statutory obligation to exchange collateral daily for non-cleared derivatives. 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. Since 2016, the bank's interest rate derivatives have been cleared by a central counterparty, 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 2017 was €642 million, of which €506 million was covered by collateral pledged to the bank (2016: €1,937 million and €1,791 million). The total fair value exposure from derivatives from financial counterparties at year-end 2017 was €8,240 million, of which €8,188 million was covered by collateral provided by the bank (2016: €10,515 million and €10,309 million).

The tables below show the net fair values of the derivatives, i.e. including collateral received and provided.

Assets	**Positive fair value derivatives**	**Netting negative fair value derivatives**	**Cash collateral provided**	**Net position**
Banking counterparties	3,803	-3,161	-506	136
Non-banking counterparties	245	-	-	245
Total 2017[1)]	**4,048**	**-3,161**	**-506**	**381**
Total 2016	8,228	-5,967	-1,791	470

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised. These items are not included in the above table either.

Liabilities	**Negative fair value derivatives**	**Netting positive fair value derivatives**	**Cash collateral provided**	**Net position**
Banking counterparties	3,803	3,161	8,187	-53
Non-banking counterparties	-1	-	-	-1
Total 2017 [1]	**-11,402**	**3,161**	**8,187**	**-54**
Total 2016	-16,483	5,967	10,309	-207

1) The over-the-counter derivatives with central counterparties that are offset daily against received or paid collateral are derecognised These items are not included in the above table either.

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 arising 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.

	2017				2016			
CCY	**Asset**	**Liability**	**Derivatives**	**Total**	Asset	Liability	Derivatives	Total
AUD		**-3,779**	**3,779**	**-**	-	-3,504	3,504	-
CAD		**-592**	**592**	**-**	-	-1,387	1,387	-
CHF		**-3,260**	**3,260**	**-**	-	-3,400	3,400	-
GBP		**-1,927**	**1,927**	**-**	-	-1,723	1,723	-
HKD		**-100**	**100**	**-**	-	-100	100	-
JPY		**-175,403**	**175,403**	**-**	-	-186,800	-186,800	-
NOK		**-500**	**500**	**-**	-	-3,500	3,500	-
NZD		**0**	**0**	**-**	-	-100	100	-
SEK		**-4,630**	**4,630**	**-**	-	-1,100	1,100	-
USD	**52**	**-32,158**	**32,106**	**-**	104	-29,427	29,323	-
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. 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'

General management of operational risks

To help it put into effect its mission to be a robust and sustainable bank for the public sector, the bank has set its risk appetite at a low level. Its internal organisation, processes and systems are designed in such a manner that operational incidents and the associated losses are kept to a minimum.

In 2017, in consultation with the ECB, the bank made the transition to a standardised approach for the management of operational risks to ensure prudential supervision. This transition has no impact on the level of capital to be maintained, but does require the bank's operational risk management to be conducted on a more formal basis. That is why all aspects of the operational risk management framework were assessed and, where necessary, tightened up in 2017. For instance, in the past year the bank set up an ORM unit and extended the Operational Risk Committee with various disciplines, making it a Non-Financial Risk Committee (NFRC), on which the full Managing Board is represented.

The bank's operational risk management is based on the three lines of defence principle where the first line (heads of the treasury, public finance, back office, ICT, legal, and finance & control departments) is responsible for controlling operational risks in the bank's primary processes. The second line supports the first line with its activities and ensures the effectiveness of risk management by adopting an advisory and a monitoring role and providing a framework. The second line is made up of the ORM team, comprising the operational risk officer, the HR manager, the security manager and the compliance officer, and reports to the Managing Board and the NFRC.
The ORM team manages, among other things, the following tools from the operational risk management framework:

- Risk control self-assessments: an annual self-assessment in respect of the risks and the effectiveness of the first line's process and control measures. The systematic integrity risk analysis was integrated into it as from 2017.
- Key risk indicators: indicators have been created for various sub-categories of operational risk so that the bank's risk controls can be assessed.
- Register of incidents and reporting: incidents are recorded and reported to the NFRC, where measures to prevent similar incidents from occurring are put in place, where applicable.
- AO/IC: the processes, risks and associated key controls are set out in a risk & control framework and assessed and adjusted on an annual basis.
- The non-financial risk report is a new, comprehensive non-financial risk report to the NFRC and the management team.

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.

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.

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 backup, 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

The bank has outsourced its client funds transfers and the related ICT support operations. This means that certain services are performed outside the company. 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 control mechanism. The bank wishes to ensure that its clients 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 also has a Code of Conduct, which forms part of the employment contracts and has been 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 internal supervision and to the work of both compliance officers. The supervision-based rules and rules 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 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 has been using the standard approach with effect from 2017. 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.

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

	2017	2016
Equity excluding profit for the current financial year	**1,505**	1,400
Intangible assets	**-2**	-2
Prudential filters	**-3**	-2
CET1 capital	**1,500**	1,396
Additional Tier 1 capital	**320**	320
Tier 1 capital (A)	**1,820**	1,716
Weighted credit risk (SA)	**1,593**	1,821
Capital requirement pursuant to CVA (SA)	**796**	938
Weighted operational risk (SA, BIA)	**291**	220
Risk-weighted assets (B)	**2,680**	2,979
Tier 1 ratio (A/B)	**68%**	58%

At the end of 2017, visible equity totalled €1,505 million (excluding profit for the current financial year) against €1,400 million at year-end 2016 (excluding profit for the current financial year). CET1 capital including Additional Tier 1 capital amounted to €1,820 million at year-end 2017 (excluding profit for the current financial year) against €1,716 million at year-end 2016 (excluding profit for the current financial year). The bank's total risk-weighted assets fell from €2,979 million at the end of 2016 to €2,680 million at the end of 2017. That fall is largely due to the use of central clearing for derivatives and a decline in the NHG RMBS portfolio.

34 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 2017, an amount of €6,331 million in loans had been granted to shareholders on market terms (2016: €6,244 million).

35 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.

36 MEMBERS OF THE MANAGING BOARD AND SUPERVISORY BOARD

Managing Board

Lidwin van Velden
Frenk van der Vliet

Supervisory Board

Age Bakker
Maurice Oostendorp
Peter Glas
Petra van Hoeken
Toon van der Klugt
Frida van den Maagdenberg
Manfred Schepers

The Hague, 15 March 2018

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 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 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The balance sheet as at 31 December 2017
- The statement of income for 2017
- 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 EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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 an equity-based measure 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 € 750.000 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.

Our key audit matters are consistent with last year.

Key audit matters

Hedge accounting	
Risk	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 measures 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.
Our audit approach	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 specialists and audited the significant parameters used for the fair valuation of derivatives and hedged items. In addition, we have audited the hedge effectiveness calculations and assessed the completeness and correctness of the disclosures relating to hedge accounting, evaluated Dutch GAAP thereof and our valuation specialists re-performed the fair value calculations for selected derivative curves and hedged items.

Key observations	Based on our procedures performed no material findings were noted with respect to the adequacy of the hedge documentation and the hedge effectiveness tests. We found the disclosure on hedge accounting in accordance with Dutch GAAP requirements.
Fair value measurement of financial instruments	
Risk	Fair value measurement of financial instruments and associated valuation adjustments can be a subjective area insofar model based valuations are applied due to lower 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.
Our audit approach	As part of our audit we have requested our valuation specialists 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.
Key observations	We have not identified any material misstatements regarding the measurement of the fair value of financial instruments as at 31 December 2017 and the related notes in the financial statements impacting our audit opinion.

Credit quality loan portfolio and loan loss provision	
Risk	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.
Our audit approach	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 Bank'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.
Key observations	NWB Bank has no non-performing loans nor any defaults in its portfolio as per year-end 2017. Following our procedures we concur with management's conclusion that a provision for credit losses is not required.

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.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided
In addition to the statutory audit of the financial statements we provided the assurance on prudential returns, corporate social responsibility and credit claims.

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. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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, 15 March 2018

Ernst & Young Accountants LLP

signed by W.J. Smit

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)		2017		2016
Profit for the year		**122,527**		107,352
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		**122,527**		107,352
		122,527		107,352

LIST OF SHAREHOLDERS AT 1 JANUARY 2018

	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	2,236	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**

EU DIRECTIVE: DISCLOSURE OF NON-FINANCIAL AND DIVERSITY INFORMATION (REFERENCE TABLE)

Subjects	Aspect	Added (yes/no)	Chapter/Page reference
Business model	N/A	Yes	70
Relevant social and employee-related matters (e.g. HR, safety, etc.)	The policies pursued, including due diligence	Yes	84-88
	The results of the policies pursued	Yes	84-88
	The principal risks of the bank's own operations and within the value chain	Yes	84-88
	The management of those risks	Yes	84-88
	Non-financial performance indicators	Yes	84-88
Relevant environmental matters (e.g. the impact of climate change)	The policies pursued, including due diligence	Yes	84
	The results of the policies pursued	Yes	84
	The principal risks of the bank's own operations and within the value chain	Yes	84
	The management of those risks	Yes	84
	Non-financial performance indicators	Yes	84
Relevant subjects relating to respect for human rights (e.g. employee protection)	The policies pursued, including due diligence	Yes	92
	The results of the policies pursued	Yes	92
	The principal risks of the bank's own operations and within the value chain	Yes	92
	The management of those risks	Yes	92
	Non-financial performance indicators	Yes	92
Relevant subjects relating to the fight against corruption and bribery	The policies pursued, including due diligence	Yes	89
	The results of the policies pursued	Yes	89
	The principal risks of the bank's own operations and within the value chain	Yes	89
	The management of those risks	Yes	89
	Non-financial performance indicators	Yes	89
Insight into the diversity policy (Managing Board and Supervisory Board)	The policies pursued	Yes	47, 57, 58
	Diversity targets	Yes	47, 57, 58
	Description of how the policy is implemented	Yes	47, 57, 58
	The results of the policies pursued	Yes	47, 57, 58

CSR GLOSSARY

- **Affordable Housing Bond**: NWB Bank has issued 'Social Bonds', the proceeds of which are used to finance social housing. In this context, NWB Bank uses the ICMA's Social Bond Guidance.
- **Circular economy**: an economic system that maximises the re-usability of products and raw materials, and minimises the loss of their value. This is fundamentally different from the current linear system, where raw materials are used to manufacture products that are destroyed at the end of their useful lives.
- **Equator Principles**: a risk management framework for project financing, adopted by financial institutions, which is used to determine, assess and manage social and environmental risks in projects.
- **Global Reporting Initiative (GRI)**: an independent international organisation that helps organisations to communicate the impact of business on critical corporate responsibility and sustainability issues such as climate change, human rights, corruption, etc.
- **Green Bond Principles (GBP)**: the GBP are guidelines which provide transparency and openness for Green Bonds. In addition, they foster the integrity of the rapidly growing market for Green Bonds.
- **ISCR agreement**: a set of agreements made with banks in the Netherlands on addressing and preventing human rights violations in connection with the corporate financing and project financing of banks and their business partners.
- **Complaints procedure**: NWB Bank provides stakeholders with an opportunity to submit a complaint through a complaints procedure. This procedure is mentioned on the website.
- **Climate adaptation and mitigation**: climate change can have major consequences. Ways of tackling those consequences include adapting to them and mitigating climate change.
- **Management approach**: a reporting item within the GRI framework intended to provide readers of the CSR report with information on NWB Bank's strategy and management, and with context in respect of the reported performance objectives, minimum requirements and trends in CSR performance.
- **Minimum Requirement (MR)**: the preconditions related to CSR which NWB Bank seeks to meet and which are derived, among other things, from laws and regulations, governance codes and internal codes of conduct and rules.
- **NWB Fonds**: the NWB Fonds offers water authorities financial resources so they can help solve global water-related issues based on their core tasks and core values.
- **Performance objectives (PO)**: CSR targets which are measurable and can be influenced (and, as such, represent a challenge for the bank).
- **Material Topics Plot (MTP)**: an overview of the material issues, which are assessed in terms of their importance to the organisation (NWB Bank) on the one hand and to its stakeholders on the other.
- **Product Approval and Review Process**: a process implemented by the bank when deciding whether to provide or distribute a certain product at its own risk and expense or for the benefit of its clients. All new products undergo this process.
- **GRI guidelines**: GRI reporting guidelines which organisations use when reporting on their material issues and the accompanying environmental, social and economic effects.
- **Social Bond Principles**: process guidelines which recommend transparency and disclosure of information and promote integrity in the Social Bond market.
- **Stakeholder dialogue**: in the context of CSR, all individuals and organisations that the bank works with or that attach importance to the social role NWB Bank fulfils as a promotional bank qualify as stakeholders. In any event, the bank regards its shareholders, clients, investors, employees, supervisory authorities and the government as stakeholders.
- **Sustainable Development Goals (SDGs)**: a set of goals launched in 2015, formulated by the United Nations and intended as a new guiding conceptual framework for sustainable development. NWB Bank and the other Dutch banks seek to play an active part in increasing the sustainability of the economy, and the SDGs will be a key frame of reference in doing so.

- **Transparency**: transparency is the degree of openness, visibility and accessibility of NWB Bank towards its stakeholders in relation to all relevant aspects of its organisation and associated business activities.
- **Transparency Benchmark**: an annual review of the content and quality of corporate responsibility reporting by Dutch undertakings (including all publicly held enterprises) carried out on behalf of the Ministry of Economic Affairs.
- **Treasury scan:** at the request of clients, public finance employees conduct a treasury scan. This usually involves a financial analysis of the loan portfolio. Such requests come mainly from the water authorities.
- **Global Compact**: a United Nations initiative of relevance to undertakings wishing to operate and report in a socially responsible manner. It comprises ten principles in the areas of human rights, labour, environment and anti-corruption.
- **Exclusion criteria**: within the CSR policy, the CSR exclusion criteria apply to NWB Bank's lending. 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 clearly defined in the objects clause of its Articles of Association (Article 2.1). The bank only provides loans within the framework of these Articles of Association.
- **Value creation model** CSR extends beyond NWB Bank, affecting the entire value chain in which it operates, including suppliers, financial backers, investors, clients and other consumers forming part of that chain.
- **Water Bond**: NWB Bank has issued 'Water Bonds', the proceeds of which are used to finance the water authorities' 'green' activities. NWB Bank uses the Green Bond Principles (see the definition above), which constitute the authoritative standard in the market for the issuing of such bonds.

LIST OF ABBREVIATIONS

Abbreviation	Description
AFM	Netherlands Authority for the Financial Markets
AHB	Affordable Housing Bond
ALCO	Asset & Liability Committee
AUD	Australian dollar
AGM	Annual General Meeting of Shareholders
EGM	Extraordinary General Meeting of Shareholders
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
VAT	Value-Added Tax
CLA	Collective Labour Agreement
CAS	Capital Adequacy Statement
CDD	Customer Due Diligence
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1
CFM	Climate Fund Managers
CHF	Swiss franc
CIO	Climate Investor One
CP	Commercial paper
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CSR	Corporate Social Responsibility
CVA	Credit Valuation Adjustment
DAEB	Services of General Economic Interest
DGS	Deposit Guarantee Scheme
DNB	De Nederlandsche Bank
DSI	Dutch Securities Institute
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECP	Euro Commercial Paper
EIB	European Investment Bank
ECG	Export Credit Guarantee
EMIR	European Market Infrastructure Regulation
ESMA	European Securities and Markets Authority
EY	Ernst & Young

Abbreviation	Description
GBP	British pound
GRI	Global Reporting Initiative
HQLA	High-Quality Liquid Assets
HRM	Human Resource Management
iad	internal audit department
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communications Technology
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
JST	Joint Supervisory Team
KCAF	Knowledge Centre for Approaches to Foundation Repair
LAS	Liquidity Adequacy Statement
LCR	Liquidity Coverage Ratio
MP	minimum preconditions
MRDH	The Hague Metropolitan Region
MREL	Minimum Requirement for own funds and Eligible Liabilities
MTN	Medium-Term Note
NHG	National Mortgage Guarantee
NRF	National Restoration Fund
NSFR	Net Stable Funding Ratio
NVB	Dutch Banking Association
or	Works Council
ORM	Operational Risk Management
PO	Performance Objectives
PES	Pre-Employment Screening
MTP	Material Topics Plot
PPP	Public-Private Partnerships
QE	Quantitative Easing
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
Rbb	Restrained Remuneration Policy Regulation
RMBS	Residential Mortgage-Backed Securities
SDG	Sustainable Development Goals
SEK	Swedish krona
SRB	Single Resolution Board
SRI	Socially Responsible Investing

Abbreviation	Description
SRM	Single Resolution Mechanism
SSA	Sovereigns, Supranationals and Agencies
SSM	Single Supervisory Mechanism
SVN	Dutch Municipal Housing Incentive Fund
USCP	US Commercial Paper
USD	American dollar
Wbfo	Financial Undertakings Restrained Remuneration Policy Act
WSW	Social Housing Guarantee Fund

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