NWB BANK

Annual report

NEDERLANDSE WATERSCHAPSBANK N.V.

2018

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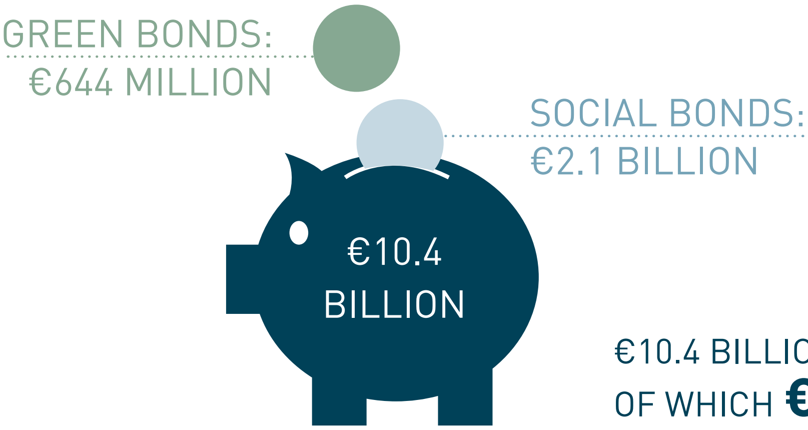
Chapters 3 and 6 together form the management report as referred to in Section 2:391 of the Dutch Civil Code.

1

FACTS AND FIGURES

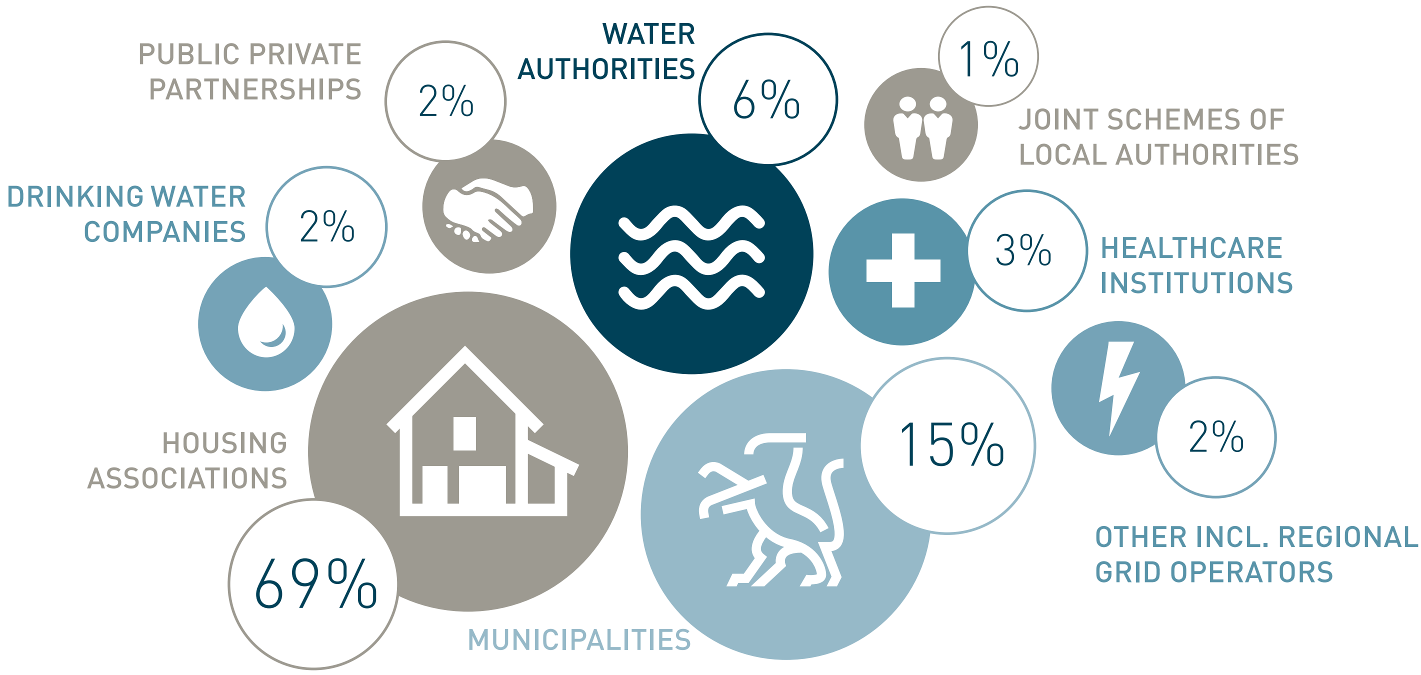
NWB BANK 2018 AT A GLANCE

SOLID NET PROFIT
€99.7 MILLION

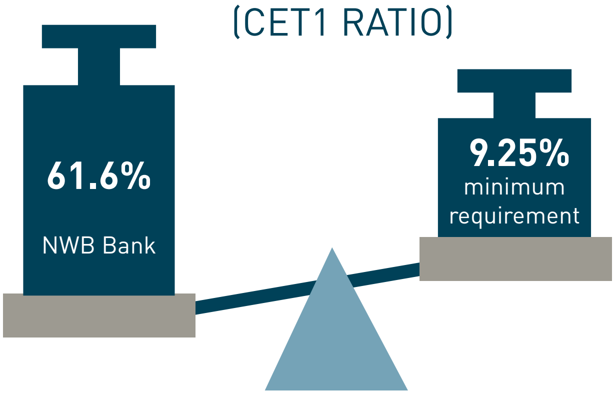


€10.4 BILLION IN FUNDING RAISED,
OF WHICH **€2.7 BILLION**
(26%) WITH GREEN BONDS AND SOCIAL BONDS

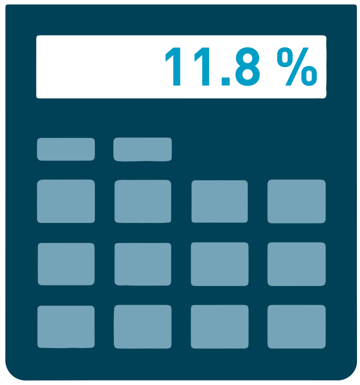
€7.4 BILLION IN NEW LENDING
TO THE DUTCH PUBLIC SECTOR



STRONG CAPITAL RATIO (CET1 RATIO)



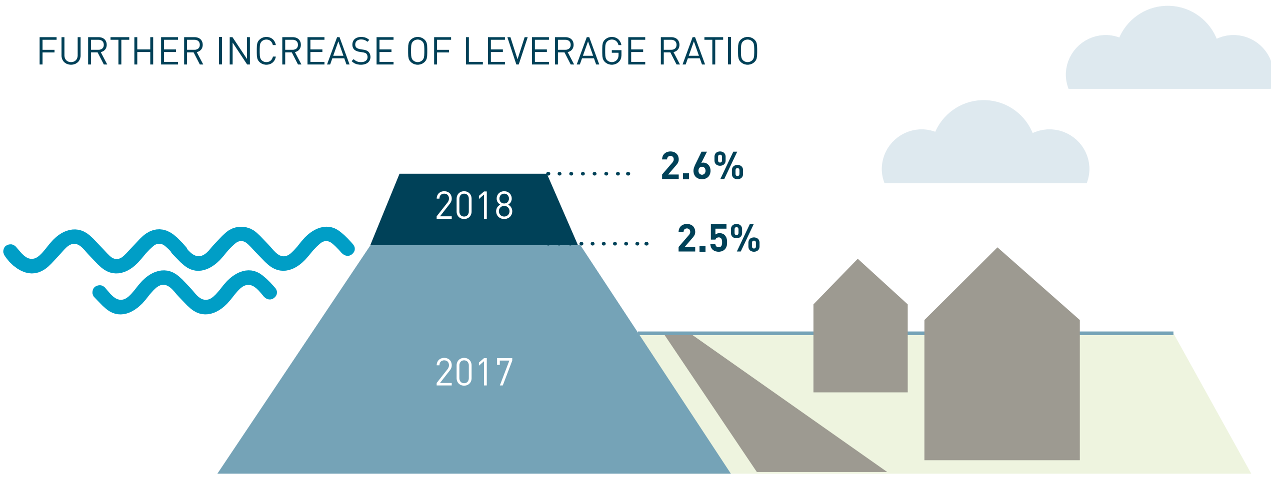
HIGHLY COST-EFFICIENT



COST/INCOME RATIO

TOTAL ASSETS

FURTHER INCREASE OF LEVERAGE RATIO



Read more in Chapter 3 ›

HEADLINE FIGURES

(amounts in millions of euros)	**2018**	2017	2016	2015	2014
Balance sheet					
Long-term loans and advances (nominal value)[1]	**47,644**	47,840	48,669	49,134	49,431
Equity[2]	**1,706**	1,628	1,507	1,399	1,303
Tier 1 capital[2]	**2,018**	1,942	1,824	1,594	1,300
Total assets	**83,715**	87,123	94,414	91,314	88,249
Risk-weighted assets	**2,627**	2,680	2,979	1,998	1,780
Results					
Net interest income	**234**	276	219	177	117
Results from financial transactions	**-48**	-58	-25	-6	-16
Operating income	**186**	218	193	171	101
Operating expenses[3]	**22**	20	19	18	16
Income tax expense	**37**	47	42	37	21
Bank tax and resolution levy	**27**	28	25	21	15
Net profit	**100**	123	107	95	49
Dividend					
Dividend distribution	**20.0**	0.0	0.0	0.0	0.0
Dividend per share in euros	**339.0**	0.0	0.0	0.0	0.0

1) loans including interest-bearing securities, provided to regional authorities
2) including profit for the financial year less dividend
3) excluding bank tax and resolution levy

(amounts in millions of euros)	**2018**	2017	2016	2015	2014
Ratios (%)					
Tier 1 ratio[2]	**76.8**[4]	72.5[4]	61.2	79.8	73.0
CET1 ratio[2]	**64.6**[5]	60.5[5]	50.5	69.8	73.0
Cost/income ratio[3]	**11.8**	9.2	9.7	10.5	15.8
Dividend pay-out ratio	**20.1**	0.0	0.0	0.0	0.0
Leverage ratio[2]	**2.6**	2.5	2.3	2.1	1.8
Liquidity Coverage Ratio	**222**	179	146	134	144
Net Stable Funding Ratio	**129**	126	123	117	107
CSR					
Volume of Green and Social Bond issuance	**2,744**	3,480	1,110	1,000	500
CO_2 emissions from operating activities p.p. (in tonnes)	**3.7**	3.9	4.1	4.0	4.8

2) including profit for the financial year less dividend

3) excluding bank tax and resolution levy

4) 73.8 excluding profit for the year (2017: 67.9)

5) 61.6 excluding profit for the year (2017: 55.9)

2

ORGANISATION

2. ORGANISATION

NWB BANK'S PROFILE

Nederlandse Waterschapsbank N.V. (hereinafter referred to as NWB Bank) is a national promotional bank. In other words, the bank's activities contribute to achieving public policy objectives. While NWB Bank was formed by and for the water authorities, it also provides financing to the broader Dutch public sector. Examples of the bank's clients include municipalities, housing associations, healthcare institutions and drinking water companies. For several years now, the bank has also been actively involved in financing Public-Private Partnerships (PPP) and granting government-backed export financing.

As a bank of and for the public sector, NWB Bank's interests and values differ from strictly commercial banks. The bank does not pursue profit maximisation. In addition to ensuring a strong financial position and efficient business operations, NWB Bank expressly focuses on creating long-term social value. It is dedicated to a stable and sustainable financial sector, which in turn contributes to an economy that serves mankind whilst causing the least possible harm to the environment. NWB Bank provides appropriate financing to its clients on the most favourable terms possible in order to keep the burden on citizens as low as possible.

The need to enhance sustainability and the energy transition are key challenges for society and the bank's clients. NWB Bank feels bound to contribute to this end. The transition to a climate-neutral and circular economy will require major steps and investments worldwide in the decades ahead – also in the Netherlands. Sustainable energy projects are generally characterised by a large capital investment and a lengthy period during which the investment must be recouped. NWB Bank is perfectly equipped to provide this type of long-term financing, which can be offered at relatively low costs.

Its efficient business model and its excellent creditworthiness enable NWB Bank to keep the financing costs at a low level for its clients. The bulk of the bank's loan portfolio comprises loans to local authorities or institutions guaranteed by local and regional governments. Partly as a result of that, the bank has the highest credit ratings: AAA/Aaa. NWB Bank ranks sixth on the list of the world's safest banks. Its high credit ratings, financial expertise and cost-efficiency mean that NWB Bank can always respond actively to the financing needs of the Dutch public sector.

The money that NWB Bank lends to its clients is raised on the international capital market. As far as possible, the bank tries to raise funds by issuing sustainable bonds. For instance, it finances the water authorities' activities with so-called Water Bonds (Green Bonds) and issues Affordable Housing Bonds (Social Bonds) for the financing of social housing. The experience and expertise that the bank acquired from these activities in recent years, combined with the large financing volume, means that the bank is leading the way internationally as an issuer of Green and Social Bonds.

As a significant bank, NWB Bank is supervised directly by the European Central Bank (ECB). Despite the intensity of that supervision and the high requirements set, which are no different for a promotional bank such as NWB Bank than for a strictly commercial bank, the bank has maintained its compact and cost-efficient organisational model. The flat organisation and open culture make NWB Bank an agile and efficient bank where transparency and integrity are of paramount importance.

MANAGING BOARD/EXECUTIVE COMMITTEE

Name	**Lidwin van Velden** (1964)
Year of first appointment	2010
Term of office ends in	2022
Principal position	Chair of the Managing Board and Executive Committee, CEO
Portfolio	Strategy, communication, legal, compliance, internal audit, human resource management
Relevant other positions	Member of the Supervisory Board of Centraal Beheer Pension Fund Member of the Supervisory Board of PharmAccess Foundation

Name	**Frenk van der Vliet** (1967)
Year of first appointment	2012
Term of office ends in	2020
Principal position	Member of the Managing Board and Executive Committee, CCO
Portfolio	Public finance, treasury & investor relations, asset & liability management, corporate social responsibility
Relevant other positions	None

Name	**Melchior de Bruijne** (1974)
Year of first appointment	2018 (Appointed as per 1 December 2018 at the EGM on 29 October 2018)
Term of office ends in	2022
Principal position	Member of the Managing Board and Executive Committee, CFO
Portfolio	Finance & control, back office, ICT, fiscal affairs, business continuity management
Relevant other positions	None

Name	**Ard van Eijl** (1973)
Year of first appointment	2018 (appointed member of the Executive Committee as of 1 November 2018)
Term of office ends in	2022
Principal position	Member of the Executive Committee (non-statutory), CRO
Portfolio	Risk management (financial and non-financial) and security management
Relevant other positions	None

MANAGEMENT TEAM

Lidwin van Velden, Chair of the Managing Board and Executive Committee, CEO
Frenk van der Vliet, Member of the Managing Board and Executive Committee, CCO
Melchior de Bruijne, Member of the Managing Board and Executive Committee, CFO
Ard van Eijl, Member of the Executive Committee, CRO
Marian Bauman, human resource & facility management
Peter Bax, back office
Reinout Hoogendoorn, internal audit
Leon Knoester, public finance
Marc-Jan Kroes, finance & control
Tom Meuwissen, treasury
Heleen van Rooijen, legal
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 Pension Fund Zorg en Welzijn Chair of the Supervisory Board of Pension Fund Caribisch Nederland Chair of the Investment Committee of Pension Fund Horeca & Catering Chair of the Advisory Committee of Openstelling Borgstellingsregeling MKB

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) Treasurer of the Managing Board of NVB (Dutch Banking Association)

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	Delta Programme Commissioner (from January 2019) Water Reeve of De Dommel Water Authority (until January 2019)
Relevant other positions	Board member of Noord-Brabant Association of Water Authorities (until January 2019) Chair of OECD Water Governance Initiative Chair of Stichting Tauw Foundation (until January 2019)

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 at Rabobank (until 1 February 2019)
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 (until 31 December 2018) Member of the Board and Audit Committee of Oranje Fonds Member of the Supervisory Board of DLL Group (from March 2018)

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 & Chief Financial Officer at the European Bank for Reconstruction and Development, London
Relevant other positions	Member of the Supervisory Board of Van Lanschot Kempen 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 Board of Directors of Academisch Medisch Centrum (AMC) and VU Medisch Centrum (VUMC)
Relevant other positions	Member of the Supervisory Board of Nederlandse Loterij Member of Centrale Plancommissie (CPB) Member of the Supervisory Board of 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	Acting 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 (RBG)

3

REPORT OF THE MANAGING BOARD

3. REPORT OF THE MANAGING BOARD

INTERVIEW WITH LIDWIN VAN VELDEN, CHAIR OF THE MANAGING BOARD

"WE ARE THE SUSTAINABLE WATER BANK OF AND FOR THE PUBLIC SECTOR."

Over the past year, NWB Bank formulated specific strategic targets for the medium term. The bank sets out clear priorities in order to meet its clients' needs. NWB Bank presents itself as the sustainable water bank of and for the Dutch public sector. As two new members joined the newly formed Executive Committee during the past year, there was plenty to talk about with Lidwin van Velden, Chair of the Managing Board.

You were appointed Chair of the Managing Board of the Nederlandse Waterschapsbank last year. The Executive Committee has set out strategic targets for the medium term. In which areas does NWB Bank plan to promote itself over the years ahead?

"Recent trends in the public sector are the main source of inspiration when it comes to determining strategic targets. We can clearly see that the issues facing our clients are becoming ever more complex. Just as the climate debate, which recognises no boundaries, we see that our clients are also expected to look beyond their original tasks for which they are set up. For example, the water authorities are increasingly generating their own energy. Our clients will have to join forces and innovate in order to implement solutions aimed at enhancing sustainability in the Netherlands, with which we intend to help them. As a bank, we will become a more proactive partner for our clients.

Because we cannot do this alone, we will actively seek cooperation with other parties. For instance, with the financing of Public-Private Partnerships for infrastructural works, we are already cooperating with commercial banks and institutional investors.

They provide the financing for the more high-risk construction phase, passing the baton to us as soon as the project is operational and long-term financing is needed. We believe that similar arrangements will also be perfectly possible for the financing of sustainable energy projects. From this perspective, we also expressly regard the investment activities of Invest-NL in their current format as complementary to our bank's financing activities.

Our core activity remains the provision of appropriate financing to the public sector at the lowest possible cost and our express intention is to act as partner for our clients in their activities aimed at enhancing sustainability. In this increasingly complex environment, the bank is therefore prepared to take greater risks in order to help clients implement their social and sustainable investment agendas. The primary focus is on water projects, which explains why we call ourselves 'the sustainable water bank'."

As the Water Authorities Climate Monitor 2017 shows, the water authorities are making good progress on their climate goals. They have reduced their CO_2 emissions and are producing as much sustainable energy of their own as they can. What role does NWB Bank play in this success?

"NWB Bank provides the vast majority of the water authorities' financing needs, which means that we are contributing both directly and indirectly to their goals in the areas of climate and sustainable energy. Jointly with the Association of Dutch Water Authorities, we became a mandator of the Climate Monitor last year. Every year, Arcadis, a Dutch engineering firm, conducts a study of the contribution that the water authorities make to reducing CO_2 emissions. The Climate Monitor shows that the water authorities achieved a 52% reduction in the period between 2005 and 2017. As a bank, we also use the Climate Monitor, because we want people to understand how the financing that we provide contributes towards increasing sustainability and the Climate Monitor is an important source for anyone looking to find such information. As part of the financial sector, we have committed ourselves to be transparent about the financial impact of our financing operations from 2020 onwards in accordance with the Climate Agreement."

What other contributions does NWB Bank make towards innovation in the public sector?

"NWB Bank has been a sponsor of the Water Innovation Prize together with the Association of Dutch Water Authorities for a number of years. The prize is awarded annually to innovative projects in the fields of water safety, clean water, sufficient water and the circular economy. Last year again, this prize highlighted a number of excellent initiatives and the prize winners were offered assistance to advance their initiatives. A prime example is the winner of the 'clean water' category, New Hart purification by the Hollands Noorderkwartier Water Authority and PWN, a drinking water company and conservation area manager in North Holland. They have found a way of extracting drug residues from waste water and surface water, converting those substances into green natural gas. The water that remains can then be reused for high-specification purposes. Another fine example and prize winner is 'SUPERLOCAL', which triumphed in the circular economy category. The Limburg Water Authority is collaborating with the local drinking water company, municipalities and a housing association in Kerkrade on a circular area development with a virtually closed water cycle. Rain water is collected and purified to ensure that an adequate supply of drinking water is available at all times, even when there are shortages owing to extreme drought conditions. Last summer, we saw how important this supply can be. We are thrilled to support such projects, where various clients of ours join forces.

To this end, we are examining the possibility of setting up a water innovation fund as a means of supporting our clients in the area of innovation. We are discussing this *option with our shareholders, who clearly recognise the added value that it could bring. The water authorities are coming up with a host of new ideas. Although at first glance they might not all seem immediately relevant to the tasks that they perform, they undoubtedly present opportunities to increase sustainability. We plan to use the fund in order to support our clients' innovative water projects, which will enable even more ideas to be translated into a viable concept. Another benefit is that water authorities will be able to join forces. For the bank, this strategy represents a real step forward in our efforts to help develop the innovative capacity of the water authorities further."*

NWB Bank issued Green and Social Bonds worth nearly €9 billion since 2014. Why are these sustainable bonds so important and what are the bank's ambitions in this area?

"Issuing Green and Social Bonds serves to underline NWB Bank's role as a sustainable financing partner for the Dutch public sector. The proceeds from our Water Bonds are used to finance projects of the water authorities, which contribute to climate mitigation, climate adaptation and biodiversity, while the revenue from the Affordable Housing Bonds is earmarked for the financing of social housing in the Netherlands. By issuing Green and Social Bonds, we succeeded over recent years in attracting an increasing number of investors who include not only financial and economic aspects in their decision-making but social aspects as well. The great interest in our sustainable bonds has had the effect of reducing prices and we pass that benefit on to our clients. Our aim is to raise more than 25% of our funding requirement with Green and Social Bonds every year."

NWB Bank acquired a loan portfolio of approximately €2 billion from ABN AMRO last year. Why did NWB Bank acquire that portfolio and what does it mean for the bank?

"As a national promotional bank, we aim to keep the financing costs for the public sector as low as possible. In addition, as a public-sector bank, we are in a better position than a commercial bank to grant loans with longer maturities. The portfolio that we acquired from ABN AMRO comprises long-term loans to housing associations, municipalities, academic hospitals and drinking water companies. You could say that these clients belong with our bank. The acquisition of the portfolio has helped us to broaden and further diversify our lending to the Dutch public sector. For instance, although we had already lent funds to drinking water companies, acquiring the portfolio allowed us to increase our market share in this sector. This approach ties in well with our strategy to be 'the sustainable water bank'."

How are you going to ensure that the bank becomes even more client-focused?

"As well as becoming more proactive partners of our clients when it comes to financing their social and sustainable investment agenda, we also intend to support them in other areas. The most notable example is the NWB Portal, which we will launch in the first quarter of 2019. This online client portal helps the bank and its clients to digitise the exchange of information and documents, while it also enables us to communicate with our clients more effectively and efficiently. Clients can also use the portal to look up current market rates as well as to create reports and carry out analyses in order to assess their financial position. The portal is available to all our clients, free of charge. We used a webinar that introduced them to the portal in February and we immediately received enthusiastic responses. I am proud that we are able to support our clients in this way, too."

How would you best describe the culture at NWB Bank?

"With around 70 employees, we remain a compact and efficient organisation with an open culture. Everyone's door is always open – which includes mine and those of the rest of the Executive Committee as well. I would say that we are professional, focused and pragmatic. The strength of the organisation lies in its expert employees, whom we encourage in their professional development. The fact that we are a bank of and for the public sector appeals to people. I can tell that they are highly committed and keen to serve the common good."

What are NWB Bank's ambitions with respect to achieving the climate goals?

"As a bank of and for the public sector, we certainly cannot lag behind in our sustainability ambitions. Our aim is to remain a compact organisation, which will help us limit our carbon footprint, but as an organisation we can do more to embrace the concept of sustainability. For this reason, we decided to include a requirement in the medium-term strategy that every car which we purchase from now on will be fully electric, while we are also aiming to achieve energy label A for our office."

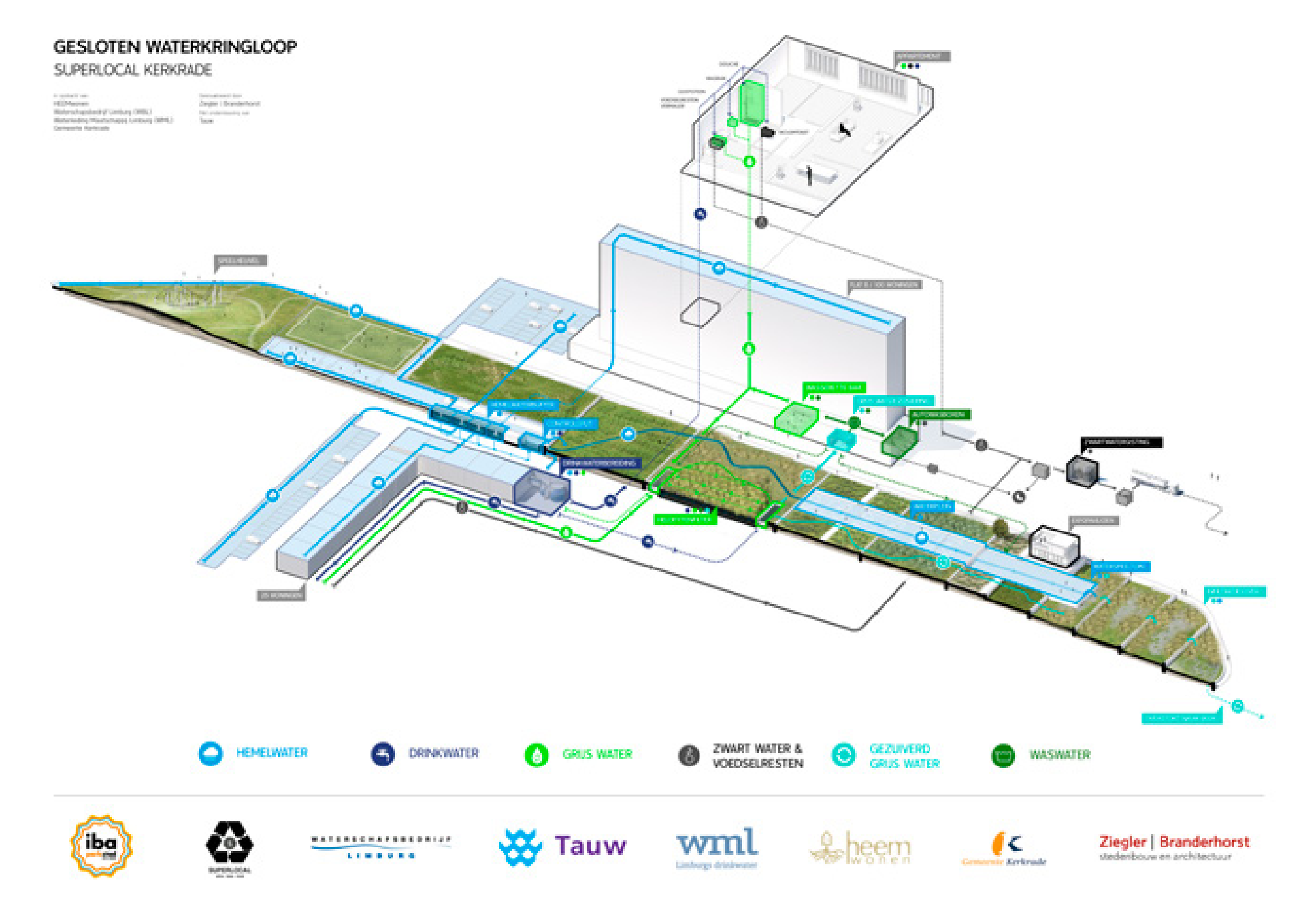
How important is it that the bank is able to comply with the leverage ratio requirement?

"It is essential. This requirement was imposed by the international supervisory authorities as a means of ensuring that we never again find ourselves in such dreadful financial turmoil, so also for us, it is vital to be in compliance. However, the original design of this "one-size-fits-all" measure was difficult to reconcile with the public-sector bank's business model. We and fellow banks in the Netherlands as well other European countries argued for proportional treatment, which argument was accepted by the European Commission, the European Parliament and the European Council. We will adhere properly to the leverage ratio requirement, without a doubt. It will also act as a backstop for us in terms of the risk-based capital requirements. We are especially grateful that the Dutch government has championed the proposal for proportional application in Europe."

What is the outlook for 2019?

"In 2019, we will roll out the ambitions that we set out in the area of sustainability over the past year. As in previous years, the bank's funding requirement will partly be met by issuing Water Bonds and Affordable Housing Bonds. We also intend to become closely engaged, through our clients, with the implementation of the National Climate Agreement. In addition, we will actively seek cooperation with other parties such as Invest-NL, institutional investors and commercial banks. Together, we must ensure that the sustainability goals are achieved."

SUPERLOCAL: CIRCULAR AREA DEVELOPMENT IN KERKRADE



SUPERLOCAL is a circular area development in the Bleijerheide district of Kerkrade. This project, which centres on reuse, comprises a collaboration between Waterleidingmaatschappij Limburg, Limburg Water Authority, the municipality of Kerkrade and HEEMwonen housing association. Together, they work on a closed water cycle to which the 130 households will be connected. Rainwater is collected, stored and purified to produce drinking water. Waste water flows are separated, black water is fermented to produce fertiliser and grey water is purified to produce water for washing.

This concept enables rainwater to be used directly without it entering the sewage system. In addition, buffers are available to prevent rainwater flooding and to meet peak demand for drinking water in dry periods. The close cooperation between the organisations involved has resulted in a sustainable overall concept that includes the entire water supply chain. A wholly climate-adaptive district, which has a positive impact on the environment, has been created.

This project is particularly special to NWB Bank because four of its client groups are involved in it.

SUPERLOCAL is the winner in the ‘Circular Economy’ category of the 2019 Water Innovation Prize.

Source: Association of Dutch Water Authorities.

STRATEGY AND VALUE CREATION

MISSION

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 social and sustainable investment agenda is the key element of NWB Bank's mission, vision and strategy. To a large extent, this is attributable to the bank's origins. Sustainability is in the bank's DNA. Climate adaptation, climate mitigation and improving biodiversity 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, among other things. Another important client group, the housing associations, are also making substantial investments to enhance sustainability. Housing associations own roughly one third of the housing stock in the Netherlands and they plan to invest heavily over the years ahead in climate-neutral new-build housing, in making homes more energy-efficient and in keeping rents low.

VISION

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 financing needs of its clients in the public sector. A cost-conscious organisation, 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, the bank is increasing its social commitment as an independent promotional bank.

STRATEGY

Long term

At the end of 2017, the bank laid down a reworked strategic framework for the long term. The Managing Board and the Supervisory Board jointly set out a number of framework conditions within which the bank must operate in order to provide added value for its clients, shareholders and other stakeholders.
Key requirements in this regard include the need to retain its high credit ratings and status as a promotional bank, which, in accordance with European regulations, means that at least 90% of its lending must qualify as what is known as promotional lending. This is vital to the bank's business model. The bank has a low risk appetite, which translates into a high risk-weighted capital ratio. The logical consequence of all these requirements is that the bank's activities must be clearly linked to the public sector and identifiable as such by shareholders, rating agencies and investors. In practice, this fact means that the bulk of the loan portfolio comprises loans to local authorities or loans guaranteed by local or regional government bodies. Finally, the organisation must be equipped to handle existing and new tasks, both on a commercial level and in the area of risk management.

Medium term

Over the past year, the recently formed Executive Committee reassessed the strategy for the medium term within this framework in liaison with the Supervisory Board and stakeholders of the bank. The process led to the formulation of specific targets that can be summarised in the form of the following five themes:

1. NWB Bank is the **bank of and for the public water sector**. The bank is the principal bank for the water authorities and aims for a market share as large as possible in this field. The bank seeks to help these clients and shareholders expressly in order to achieve their sustainability ambitions and is always available for them. Innovation is a major catalyst for sustainability improvement. In consultation with its clients, the bank will broaden its options to support them in this process. Drinking water companies are long-standing clients of the bank as well. Financing these clients perfectly reflects the profile of 'the sustainable water bank'. The bank aims to expand its market share in this sector where possible.

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.

2. NWB Bank is a **key player in financing the Dutch public sector**. The bank not only finances the water authorities and drinking water companies, but also municipalities and provinces, as well as institutions guaranteed by local and regional governments, such as housing associations or healthcare institutions. It is constantly seeking opportunities to extend its role as a bank for the Dutch public sector. Its credit policy and product range have been broadened over the years. For instance, NWB Bank has been active in the area of financing Public-Private Partnership (PPP) projects for several years now, it provides government-backed export financing and invests in NHG RMBS bonds (based on securitised mortgages with a National Mortgage Guarantee).

   In the past ten years, the bank provided a total of €65 billion in long-term funding. With total assets of approximately €84 billion, NWB Bank is a sizeable player in the Dutch banking landscape. Particularly in the public sector, the bank contributes to a competitive, varied and innovative playing field where public funds are handled efficiently and effectively.

3. The bank sees itself as a **financing partner that can enhance sustainability in the Netherlands**. The transition to a climate-neutral and circular economy will require major investments in the Netherlands in the decades ahead. NWB Bank's contribution will be to provide appropriate financing at low costs. The bank has been active in the market for the direct financing of sustainable energy projects since last year and plans to expand those activities in the years to come. Investments in so-called Green NHG RMBS (Residential Mortgage-Backed Securities) are another example of the contribution that the bank intends to make to the energy transition. By financing these securitised mortgages, the bank aims to contribute to lower mortgage costs for owners of sustainable homes which are covered by the National Mortgage Guarantee scheme or homes due to be made more sustainable.

   Expectations are that major steps and investments will stem mainly from the provisions of the National Climate Agreement. To that end, the bank is seeking to play its part in the implementation of this comprehensive package of measures, aimed at

STRATEGIC THEMES

ensuring that there will be a 95% reduction of CO_2 emissions in the Netherlands by 2050 as compared with 1990. In addition, the bank is actively seeking collaboration with Invest-NL, which was formed mainly to help finance the aforementioned social transition challenges.

4. The bank's strategy is founded on the **sustainable, efficient and socially committed organisation** that NWB Bank is. NWB Bank is the most cost-efficient and the risk-weighted best-capitalised bank supervised by the European Central Bank, a position which it is keen to retain. This means not only a relatively low cost level, but also a certain degree of flexibility. That said, the diversification of lending and the increasing demands being placed on banks will require further investments in knowledge, personnel and systems. Nevertheless, with the number of employees standing at about 70, the bank remains very cost-efficient.

   The bank itself wishes to set a good example in the area of sustainability. To this end, the bank will purchase only zero-emission cars for its employees and Executive Committee as from 2019, while it also plans to obtain energy label A for its office in the years ahead.

5. **A responsible and social return** could be seen as the keystone of the strategy. As a promotional bank, the bank refrains from pursuing profit maximisation, although a reasonable profit must be made if the bank is to achieve its ambitions and distribute dividends. A benchmark target return on equity has been agreed with the shareholders. Specific attention is also paid to the social return pursued by the bank through its lending. All of the bank's efforts are about creating long-term added social value, which is often difficult to express in monetary terms.

A more detailed explanation of the five strategic themes and the way that NWB Bank implements them is provided in the chapter on 'The Sustainable Water Bank'.

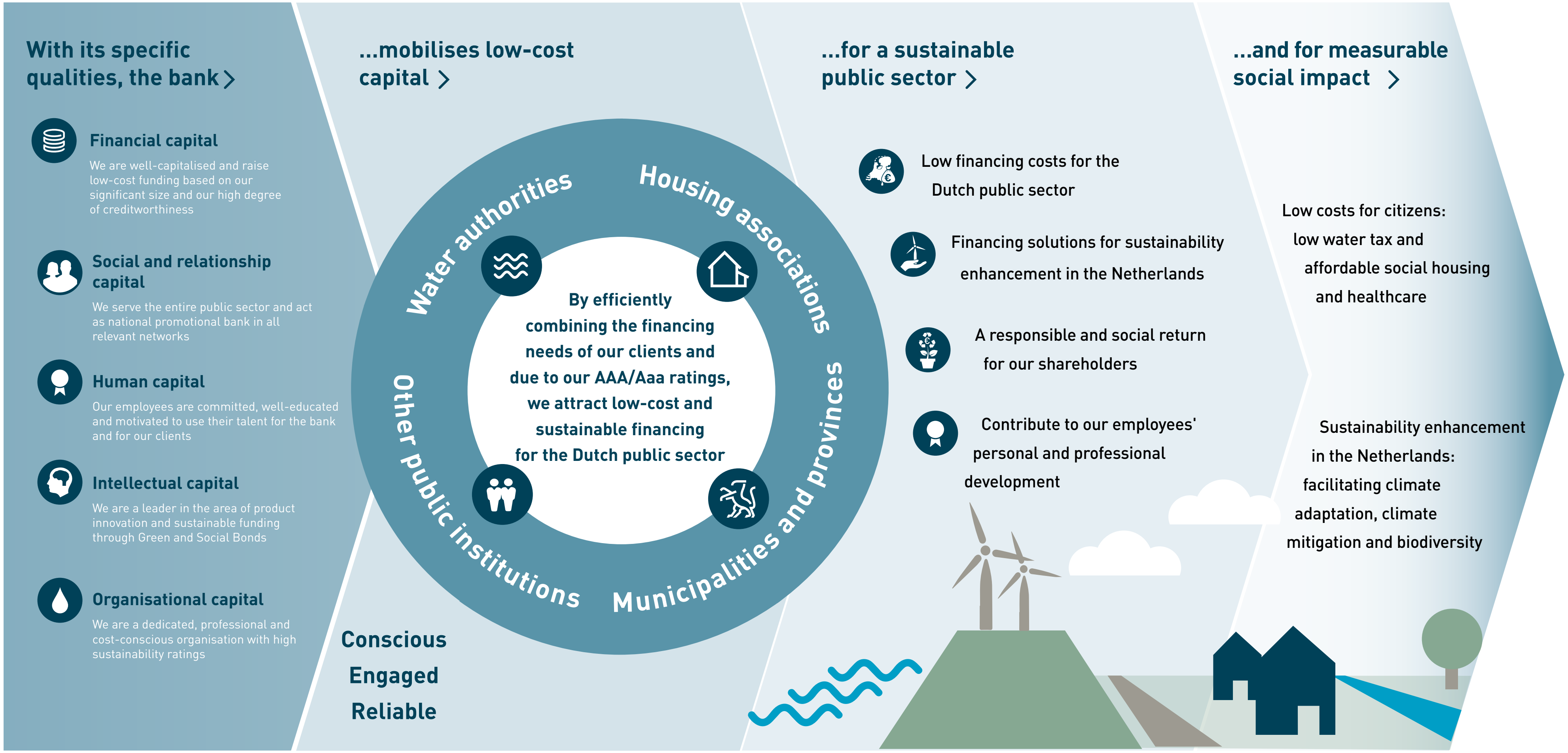
CORE VALUES

6. 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. To this end, '**conscious, engaged and reliable**' are and will remain 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 essential in this regard, not only to investors but also to all other stakeholders.

VALUE CREATION

The value that NWB Bank adds to society is illustrated using the so-called value creation model. The bank uses the model to show how it harnesses all available resources (input) in order to create value for its clients, shareholders and other stakeholders (output). The capital at the bank's disposal must be used as efficiently and effectively as possible. Ultimately, everything comes down to the short- and long-term impact that the bank and its activities have on society. The bank achieves its greatest impact through its lending as well as its knowledge and information transfer.

NWB BANK: THE SUSTAINABLE WATER BANK



TRENDS AND DEVELOPMENTS IN 2018

2018 again saw reasonable growth in the Dutch economy. One of the main contributing factors was improved purchasing power, brought about by steadily declining unemployment, among other things. Economic activity, investments and exports also continued to increase in the past year. The rest of the eurozone recorded economic growth as well, albeit on average at a lower level than in the Netherlands. It seems that the economic upturn in Europe has now peaked.

Against this background of continuing economic growth and the wage growth in the eurozone, the European Central Bank ended its extensive asset purchase programme in December. Released funds will be reinvested for the time being. With this programme, valued at €2.6 trillion euros and with a term of nearly four years, the ECB intended to boost economic growth. The ECB has indicated that it will maintain interest rates at the current historically low level at least until after the summer of 2019. This strategy contrasts with the US Central Bank, which raised interest rates three times in 2018.

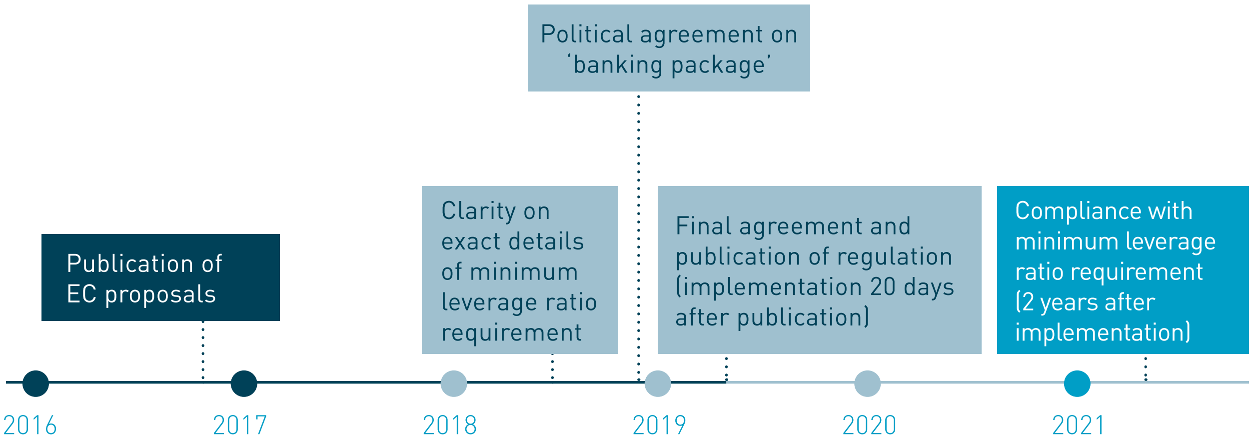
A number of uncertainties continue to apply on the international stage that impact the Dutch and European economy. The uncertainty surrounding Italy's budget policy, the demonstrations in France and Brexit are causing particular concern. In 2018, the tensions concerning trade with the USA rattled the markets considerably. The European Union and the United States concluded an agreement in July on reducing trade barriers, which prevented further escalation of the trade conflict. It is in part against this background that there has been a shift in sentiment on the capital markets and a decline in the capital market interest rates within the eurozone since October. Ultimately, those interest rates closed at an even lower level than the initial rate in 2018.

The European Parliament and the European Council reached a political agreement on the so-called banking package in Brussels in December. This includes the Capital Requirements Regulation (CRR), of which the leverage ratio obligation is an integral part. This ratio is set at 3%. Even more important for NWB Bank, however, is that clarity has now been provided about the criteria which a promotional bank will have to satisfy in order to be eligible for the proportional application of the leverage ratio obligation. Since NWB Bank meets these criteria, it can report a leverage ratio that is well in excess of 3%. The European Parliament has given final approval to the package of measures on 16 April 2019. As soon as the European Council has ratified this approval, the regulations will be published and enter into force twenty days later. Note that banks are not required to meet the leverage ratio requirement until two years after the date of entry into force, i.e. mid-2021.

At national level, the draft National Climate Agreement was presented at the end of December. With this package of measures, the Netherlands should be able to reduce CO_2 emissions by at least 49% by 2030. The Agreement came into being after a broad coalition of political parties in the Dutch House of Representatives had set a significant target by passing a Climate Act, stipulating that greenhouse gas emissions must have been reduced by 95% by 2050 compared with the 1990 level. The financial sector, including NWB Bank, has also committed itself to the National Climate Agreement. Specifically, as from 2021, banks and other financial institutions will identify and list the impact that all their financing and investment activities have on the climate. Before 2022, they will also disclose the actions that they are taking in order to contribute to the Paris Climate Agreement.

Sustainable energy projects 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 project financing, which can be offered at relatively low costs. Where necessary, NWB Bank cooperates with other parties, which explains its support for the formation of 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

TIMELINE OF LEVERAGE RATIO REQUIREMENT



attract sufficient funding in the market. The energy transition is a frequently cited example in this context. The bank expressly views the investment activities that Invest-NL is set to carry out in the area of sustainability and the energy transition as complementary to NWB Bank's financing options. Expectations are that Invest-NL will commence operations in the first half of 2019.

ENERGIEFABRIEK TILBURG: PRODUCING ENERGY FROM WASTE WATER

De Dommel Water Authority is producing its own energy in the shape of biogas. This process takes place at Energiefabriek Tilburg, where the waste water treatment facility has been converted into an energy plant that generates enough power to cover all its needs.

Waste water is a source of valuable raw materials. The Water Authority keeps the sludge which is produced during the waste water purification process and which contains the materials that lend themselves to reuse. The sewage sludge from all De Dommel Water Authority's waste water treatment plants is the input for the energy plant in Tilburg.
After the sludge has been dewatered, it goes into a large 'pressure cooker' (the Cambi system), where it is 'cracked' under high pressure and at a high temperature. Cracking biomass releases highly fermentable material, which is then pumped to the fermentation tank. It contains bacteria that convert the released biomass into biogas. Fermentation of the released biomass takes between 15 and 20 days. The biogas is then used to produce steam for the 'pressure cooker process' and as fuel for the gas-fired engines that generate electricity. Biogas is also supplied to a nearby company, which converts the biogas into green natural gas that is fed into the central gas grid.

Biogas production in 2017: 6.2 million m^3 (forecast annual production from 2019 onwards: 9 million m^3)

CO_2 reduction in 2017: 8,176 tonnes of CO_2/year

Source: De Dommel Water Authority and 2017 Climate Monitor.

NWB BANK IN 2018

LENDING

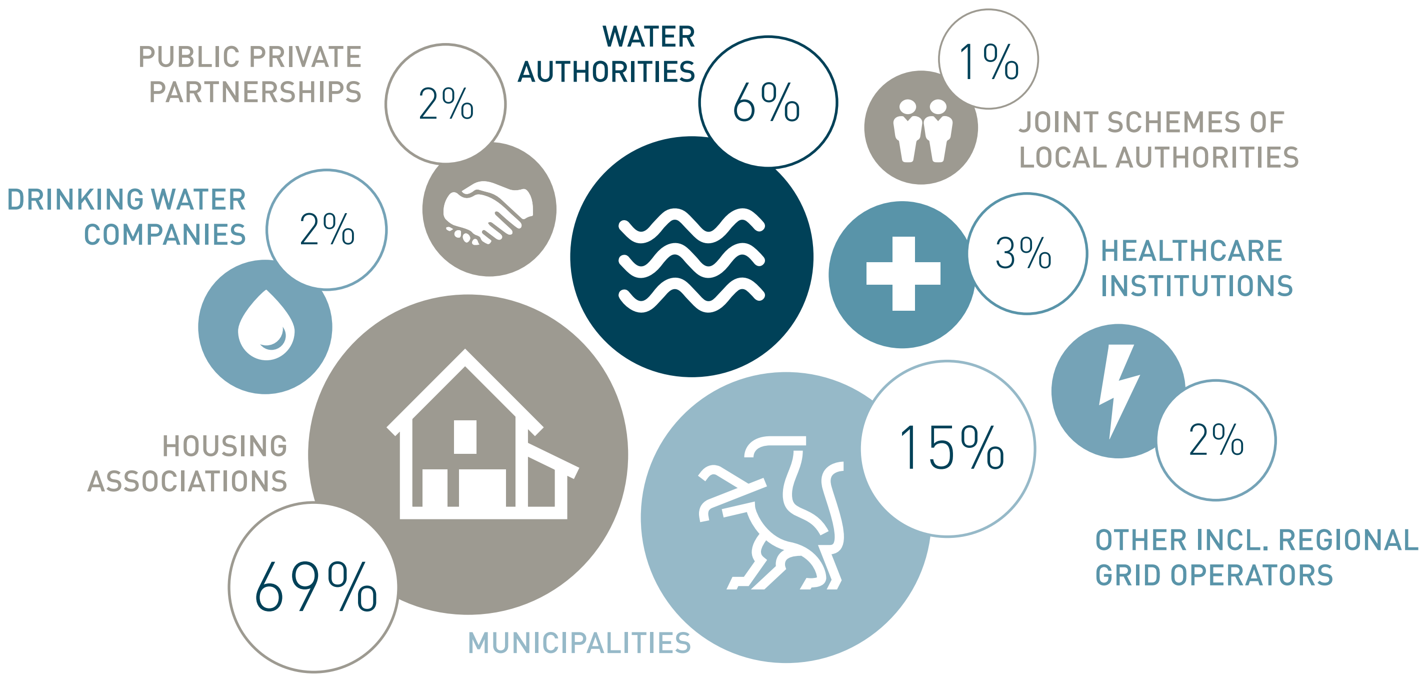
NWB Bank provided €7.4 billion in new long-term lending in 2018, compared with €6.2 billion in 2017. This figure includes interest rate resets for existing loans. As a result, the bank has been able to consolidate its market share in the financing of the Dutch public sector at a satisfactory level despite strong competition. In the ongoing low-interest environment, investors keep searching for returns and have shown a growing interest in financing the public sector in recent years.

The increased financing volume is to a limited extent due to the acquisition of a public-sector loan portfolio from ABN AMRO. This portfolio, which comprises long-term lending to housing associations, municipalities, academic hospitals and drinking water companies, was acquired in stages and €371 million of the approximately €2 billion in total was acquired in 2018. Even without that acquisition, the scale of new lending is significantly higher than in 2017.

The total portfolio of long-term lending provided, on the basis of principal sums, amounted to €47.6 billion at the end of 2018 (2017: €47.8 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, municipalities and provinces, drinking water companies, institutions guaranteed by local and regional governments such as housing associations and healthcare institutions) 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:

BREAKDOWN OF LENDING VOLUME IN 2018



Water authorities

The share of water authorities in the bank's total lending volume was lower in 2018 than in 2017. The main reason is that several water authorities made regular use of so-called maturity extensions in recent years. As a result, so to say, they have pre-financed themselves. Water authorities' financing amounted to more than €416 million in 2018 (2017: €675 million), meaning that the bank still provided over 90% of their financing needs. This is in line with the bank's objective of providing the vast majority of its shareholders' financing needs. 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 €5.1 billion in 2018 (2017: €3.95 billion). That volume relates to the primary demand for loans and advances and to the review of loan charges for existing 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). This way, the bank can be certain that all its lending to housing associations contributes to the creation of added social value.

In the past year, the bank also conducted more transactions involving the takeover of derivatives with housing associations. Since 2017, housing associations have been able to exchange their derivatives and any underlying loan for a new long-term loan with a fixed interest rate from 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 financial resources for investments in social housing. The WSW is also guaranteeing these new loans granted by the bank. The bank was involved in converting derivatives for an amount of €337 million in 2018 (2017: €478 million).

NWB Bank is also playing an active role in the restructuring of the Stichting Humanitas Huisvesting (SHH) housing association and the reorganisation of Woningstichting Geertruidenberg (WSG). The bank takes a constructive approach by seeking a solution that is first and foremost in the interests of the tenants of the housing associations concerned. For instance, it does not charge any penalty interest for the early repayment of loans by SHH and WSG. NWB Bank is also assisting with the administrative division of loans in order to facilitate their transfer to other housing associations. This way, further damage to the sector as a whole will be limited, while the bank is able to underline its social role and commitment.

Municipalities

The municipalities are another major client group. In 2018, NWB Bank provided municipalities with more than €1.1 billion in loans (2017: €745 million). The bank also granted €109 million to finance joint schemes (2017: €400 million). Local authorities are increasingly collaborating with each other in a rising number of 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.

Drinking water companies

Drinking water companies are long-standing clients of NWB Bank. The Drinking Water Act (Drinkwaterwet) precludes the privatisation of drinking water companies, making them part of the public sector. In addition, the Act protects drinking water activities and regulates the rates as well as the associated capital costs. Furthermore, drinking water companies cooperate closely with the water authorities in a variety of areas, which makes it even more important that they are provided with financing. The cooperation of drinking water companies with water authorities and municipalities is laid down in the Administrative Agreement on Water 2011 (Bestuursakkoord Water 2011). All these matters make NWB Bank the perfect home for drinking water companies as one of its client groups. In the past year, €145 million in long-term funding was provided to these utility companies (2017: €58 million). The increase in the volume of financing provided to drinking water companies is in line with the bank's aim of being the bank of and for the public water sector.

Public-Private Partnerships

In 2018, NWB Bank financed another Public-Private Partnership (PPP). De Groene Boog consortium signed the financing agreement for the A16 Rotterdam project in June (financial close). The total project costs for the design, building, financing and long-term maintenance (DBFM) of the 11 kilometres of new motorway between the A13 at Rotterdam The Hague Airport and the A16/A20 at Terbregseplein amount to some €870 million, of which NWB Bank will finance around €150 million. It is worth noting that the design of the road is energy-neutral and takes account of optimum incorporation into the landscape. For instance, extra-quiet asphalt, sound barriers and embankments are being used. The road will be open to traffic in 2024.

Export financing

For some time, NWB Bank has been active in the field of financing variable-rate export credit backed by the Dutch State. In 2018, NWB Bank did not grant any new loans under an Export Credit Guarantee (ECG).
It was announced at the end of March that NWB Bank together with BNG Bank can provide refinancing via a new desk to export financiers at an attractive fixed interest rate, known as CIRR (Commercial Interest Reference Rate). Both banks signed an agreement for that purpose with the Ministry of Finance. By now providing CIRR fixed-rate financing as well via this new desk, the bank is further stimulating Dutch exports and broadening its social role. Until March 2018, unlike many other countries, no CIRR financing was available in the Netherlands. No CIRR financing yet took place in 2018.

Collaboration with the Council of Europe Development Bank

Following on from the collaboration with the European Investment Bank in earlier years, NWB Bank also entered into a partnership with the Council of Europe Development Bank (CEB) in 2018. The two banks signed an agreement for a loan facility of €300 million in October. The CEB made these funds available to NWB Bank for the financing of social housing, sustainable energy projects and local infrastructure, among other things. Since NWB Bank is committed to providing at least the same amount, €600 million in additional investments have been mobilised. The benefits from the attractive conditions under which NWB Bank borrows from the CEB are passed on to its clients.
As a result, this collaboration contributes to NWB Bank's objective of keeping the financing costs for the public sector as low as possible. Of the available €300 million, €150 million was drawn in 2018.

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. The supply of fully NHG-guaranteed transactions is limited and the bank did not purchase any new NHG RMBS notes in 2018. The total NHG RMBS portfolio amounted to €0.8 billion at the end of 2018 (2017: €1.7 billion).

FUNDING

Long-term funding

To ensure it is able to provide long-term financing, NWB Bank raised a total of €10.4 billion (2017: €12.8 billion) in long-term funding in 2018. The funds are used both to finance the bank's activities and to refinance maturing loans. The average term of the funding raised is 8.4 years (2017: 9.7 years).

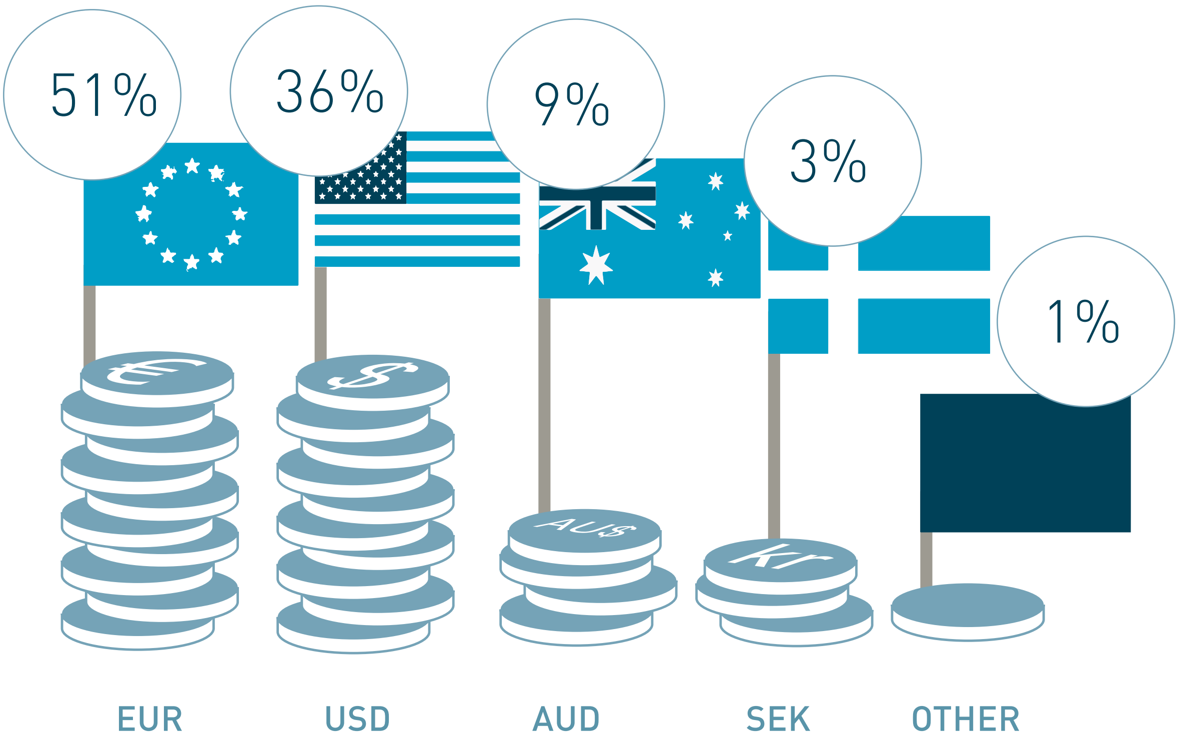
The bank is able to raise funds on very favourable terms on account of its AAA/Aaa ratings, which are equal to those of the Dutch State. The fact that the bank's bonds are eligible for the ECB asset purchase programme (Quantitative Easing – QE) helps, despite the fact the funding spreads increased slightly at the end of the year because the ECB ended its QE programme on 1 December. Finally, the bonds issued by NWB Bank qualify as High-Quality Liquid Assets (HQLA) and, as such, they can be used by investors to meet the liquidity requirements under the Liquidity Coverage Ratio (LCR). These factors mean that funding 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 87.5%.

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 bonds in euros at historically low financing costs and tap outstanding bonds, thus reducing the liquidity mismatch.

A significant portion of the long-term funding is raised through the issuance of both Water Bonds and Affordable Housing Bonds. In the past year, this portion amounted to 26% and the bank has already raised nearly €9 billion in total with these Green Bonds and Social Bonds. Besides traditional investment considerations such as investment safety and the risk/return trade-off, investors largely purchased these bonds because of their interest in supporting climate-friendly and social projects under their investment mandate. By issuing these specific bonds, NWB Bank continues to attract new investors and broaden the market span for Green and Social Bonds. Issuing these Water Bonds and Affordable Housing Bonds

FUNDING RAISED BY CURRENCY



emphasises NWB Bank's role as a robust and sustainable financing partner for the Dutch public sector.

Water Bonds

The Bank again issued two Water 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. February saw the issuance of a Water Bond in Swedish krona (SEK), carried out to serve the interests of Swedish investors. This bond amounted to SEK 2 billion (approximately €200 million) with a 10-year term. Later in the year, in November, the bank issued a third Water Bond in US dollars. This involved a 4-year benchmark Water Bond amounting to USD 500 million (approximately €432 million). It was the seventh Water Bond to have been issued by NWB Bank. In total, €3.6 billion in sustainable funding has been raised this way. As a result, NWB Bank remains a front runner in the international capital market for issuing Green Bonds.

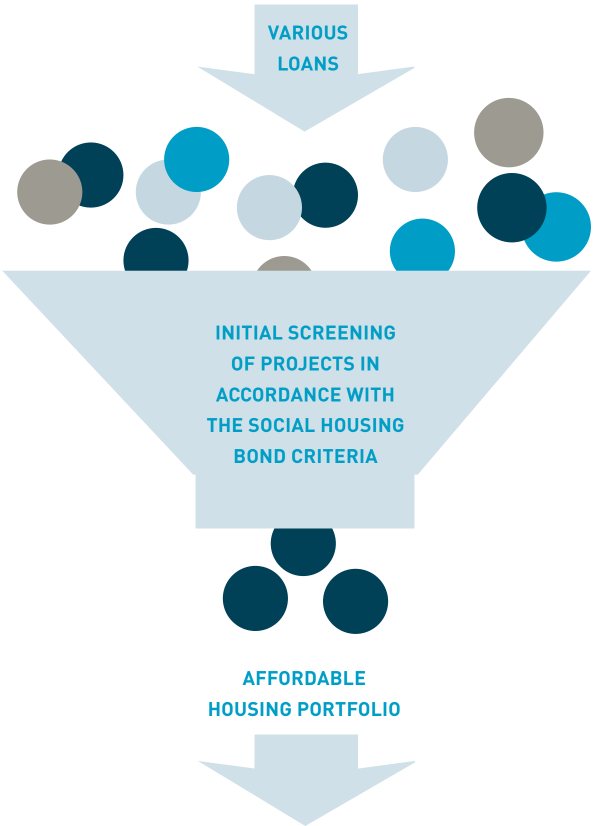
Affordable Housing Bond

NWB Bank continued to issue Social Bonds in 2018, having entered that market with great success in 2017. The proceeds of these bonds will exclusively be used for the financing of social housing. In total, the bank issued three Affordable Housing Bonds (AHB) in 2018. The first AHB in April was a 20-year benchmark bond amounting to €500 million, followed by the issuance of a 5-year benchmark bond amounting to €1 billion in September. The third and final AHB, a 20-year benchmark bond amounting to €600 million, was issued in November. This activity makes NWB Bank the world's largest issuer of Social Bonds.

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 total of €53.9 billion was raised under the ECP programme in 2018 (2017: €42 billion) with maturities averaging 2.9 months (2017: 3.6 months) and the equivalent of €162.6 billion (2017: (€74 billion) with maturities averaging 0.5 months (2017: 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 2018 was €8.2 billion (2017: €9.5 billion). All money market funding was obtained at negative effective interest rates. The bank largely uses money market funding to fund short-term lending 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, issued under the bank's Medium-Term Note programme, to some extent replaced the issuance of commercial paper, which meant that the favourable rates could be maintained for a longer period.

SELECTION PROCESS AFFORDABLE HOUSING BOND



FINANCIAL RESULTS

Net profit

NWB Bank's net profit was €99.7 million in 2018 (2017: €122.5 million). Partly due to the greater financing volume, the bank's profit can again be described as healthy. Nevertheless it was expected that the net profit would be lower than in 2017, which has to do with less attractive money market rates compared with 2017 following the ECB's announcement that it would be phasing out its QE programme. The composition of the existing loan portfolio was a further contributing factor. For instance, the relatively profitable NHG RMBS bond portfolio is gradually maturing.

Net interest income

The expectation that the bank would benefit less from the attractive rates in the market in 2018, especially for short-term funding, was partly realised. Despite the slight rise of money market rates due to the phasing out of the ECB's extensive asset purchase programme, all money market funding in 2018 was again obtained at negative effective interest rates. The final net interest income was €234 million, compared with €276 million in 2017.

Results from financial transactions

The results from financial transaction in 2018 were €48.3 million negative (2017: €58.2 million negative). The negative results from financial transactions were expected and are due to an earlier restructuring of the swap portfolio undertaken by the bank a number of years ago to bring its interest rate risk position in line with the benchmark return on equity. This will continue to have a negative impact on the results from financial transactions in the next few years. By contrast, as a result of that, net interest income is higher, so the impact on the net profit is limited.

Operating costs

In 2018, operating costs rose by approximately €2.3 million to €22 million (2017: €19.7 million). This rise is due to increased salary costs and pension contributions resulting from the growth in the number of employees, among other factors. The number of FTEs employed at year-end 2018 was 65, compared with 57 in 2017. Despite the necessary investments in the organisation, the bank has succeeded in maintaining its compact and efficient organisational model.

Regulatory costs

Regulatory costs for the past year were €2.8 million (2017: €3.0 million). In addition, bank tax fell to €17.7 million (2017: €19.9 million). The balance sheet total at year-end 2017 was used in the calculation of the 2018 bank tax. As the balance sheet total at year-end 2017 was lower than at year-end 2016, less tax was due. The resolution levy, as a separate category, is considerably higher than in 2017, when it amounted to €7.7 million, excluding an irrevocable obligation of €1.4 million. This fact is largely due to the Single Resolution Board's having raised the total amount to be levied. The bank is obliged to make this contribution to the resolution fund pursuant to the Bank Recovery and Resolution Directive (BRRD).

Balance sheet total

On 31 December 2018, the bank's balance sheet total was €83.7 billion compared with €87.1 billion at the end of 2017. At a total of €47.6 billion, the long-term lending portfolio makes up more than 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 increased usage of the settled-to-market method for centrally cleared derivatives in the past year. Not only has this contributed to greater transparency in reporting, it also leads to a decrease in the balance sheet total because derivative positions are repeatedly being offset against each other.

Equity

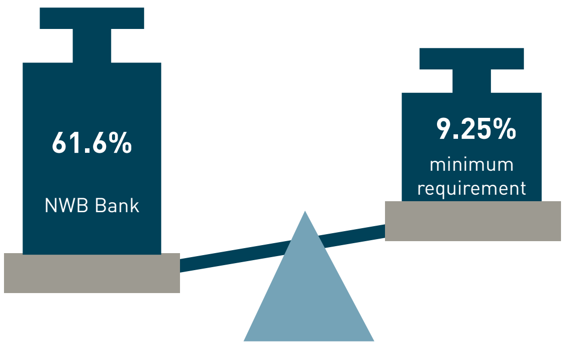
At the end of 2018, the bank's equity totalled €1,726 million (including 2018 profit) against €1,628 million at the end of 2017 (including 2017 profit). The bank has agreed a benchmark target return on equity of 4.1% for 2018 with its shareholders. The benchmark for the target return on equity is based on the income from a ten-year continuous investment in a ten-year Netherlands Government Bond, plus a surcharge appropriate to the bank's risk profile. The return on equity for 2018 was 5.9%, which means that NWB Bank has met the relevant benchmark for the target return on equity (2017: a return on equity of 7.8% compared with a benchmark target return of 4.5%).

Capital ratios

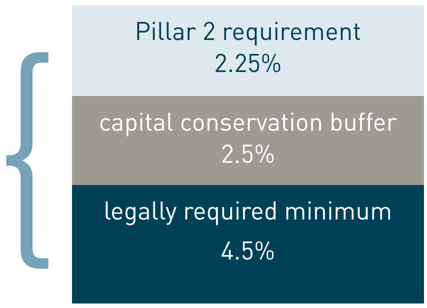
Tier 1 equity including hybrid capital (Additional Tier 1 or AT1) stood at €1,938 million at year-end 2018 (excluding profit for 2018). The bank's total risk-weighted assets amounted to €2,627 million as compared with €2,680 million at the end of 2017. Although the financing of a Public-Private Partnership and the lending to drinking water companies as well as regional grid operators initially contributed to an increase in risk-weighted assets, the sharp decline in the NHG RMBS portfolio and the decreased exposure to financial counterparties owing to the introduction of central clearing for interest rate derivatives led to a decrease compared with the previous year. As a result of the decline of risk-weighted assets and increase in equity, the Tier 1 ratio rose from 67.9% at the end of 2017 to 73.8% at the end of 2018 and the Common Equity Tier 1 ratio (CET1 ratio) climbed from 55.9% at the end of 2017 to 61.6% at the end of 2018 (both excluding profit for the financial year).
NWB Bank's capital ratios are well above the minimum requirement, which underlines its high creditworthiness and low risk profile. On 1 January 2019, the ECB set the minimum required CET1 ratio for NWB Bank at 9.25% (2018: 7.625%). The 9.25% minimum capital requirement comprises the 4.5% legally required minimum, a 2.5% capital conservation buffer and a 2.25% bank-specific Pillar 2 requirement. The levels of both the capital conservation buffer and the bank-specific Pillar 2 requirement rose compared with those of 2018. The capital conservation buffer was introduced in four stages over the past few years and reached the final level of 2.5% at the beginning of 2019. The increase in the bank-specific Pillar 2 requirement is the result of the annual Supervisory Review and Evaluation Process (SREP).

The bank's leverage ratio stood at 2.6% at the end of 2018 (including retained profit for the current financial year). This figure is an increase of 0.1% compared with the end of the 2017 financial year and is the consequence of the balance sheet total having declined and the 2018 profit being added to equity. The leverage ratio requirement and the way in which it is calculated are part of the so-called Capital Requirements Regulation (CRR). At the end of 2016, the European Commission proposed a proportional calculation for public development credit institutions such as NWB Bank. That proposal was endorsed and developed further by the European Parliament and the European Council. The criteria that have to be met for a bank to qualify for the proportional application of the leverage ratio requirement were

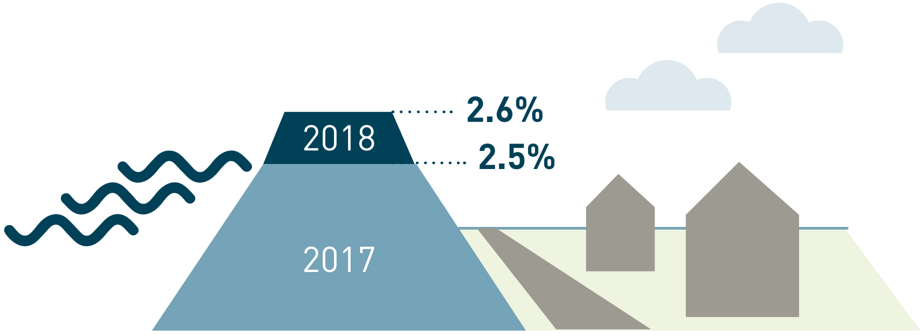
CET1 RATIO



COMPOSITION OF MINIMUM REQUIREMENT CET1 RATIO (9.25%)



LEVERAGE RATIO

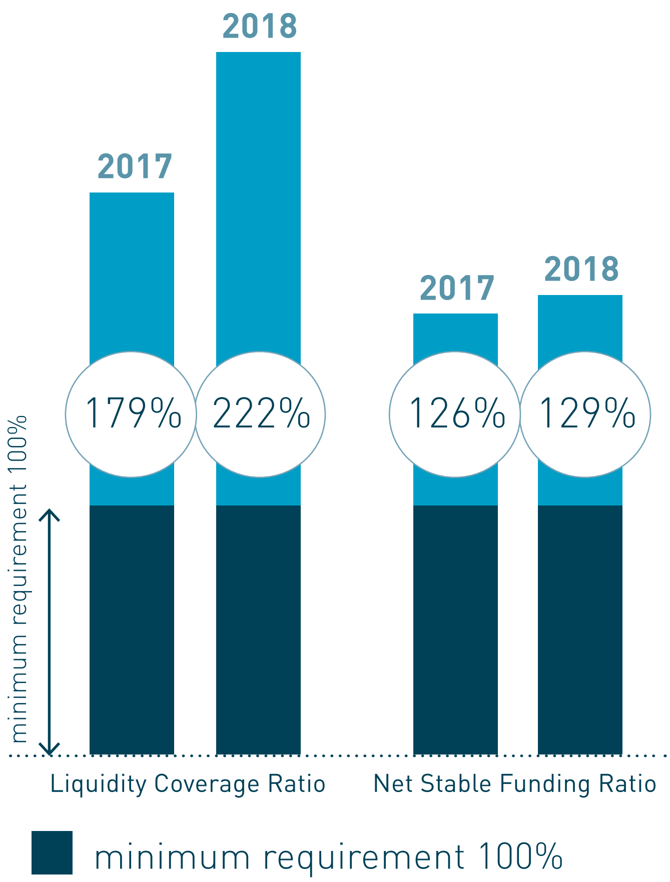


clarified during 2018 and it was concluded that NWB Bank meets them. The European Parliament has given final approval to the package of measures on 16 April 2019. As soon as the European Council has ratified this approval, the regulations will be published and enter into force twenty days later. The bank will then be able to present a leverage ratio that amply satisfies the minimum requirement of 3%. Note that NWB Bank is not required to meet the leverage ratio requirement until two years after the date of entry into effect, i.e. mid-2021.

Unlike the Tier 1 ratio, the leverage ratio is a risk-unweighted ratio and stems from the capital requirements under Basel III. It means that no account of the risk-weighting of the bank's assets is taken into the calculation. In 2015 and 2016, the bank issued several tranches of hybrid capital (AT1 capital) in addition to the maximum reservation of annual profits in order to meet the minimum requirement of 3% envisaged at the time. 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, the bank decided in 2017 and also in 2018 not to issue any further AT1 instruments. The amount of AT1 capital therefore remained at €320 million in 2018.

Liquidity ratios

The Liquidity Coverage Ratio (LCR) was introduced as part of CRR/CRD IV. The LCR is designed to ensure that institutions hold sufficient liquid assets to meet their estimated net cash outflows over a 30-day period of significant stress. At year-end 2018, the LCR stood at 222%, well above the statutory minimum of 100%



(2017: 179%). As soon as the European Parliament has approved the introduction of CRR II/CRD V, the Net Stable Funding Ratio (NSFR) will also enter into effect. Expectations are that its enforcement will begin two years thereafter. For NWB Bank, it stood at 129% at year-end 2018, which is also comfortably above the future minimum requirement of 100% (2017: 126%). The NSFR is also a liquidity ratio and relates to the availability of liquid assets in the longer term. The internal liquidity requirements were in part determined by means of the Internal Liquidity Adequacy Assessment Process (ILAAP).

SUPERVISION

The bank is under the direct prudential supervision of the ECB. The ECB performs supervision jointly with the Dutch Central Bank (De Nederlandsche Bank - 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 also serves as a basis for determining the supervision programme for the year ahead. For instance, as was the case for all other banks, in the past year, the supervisory programme included an on-site audit of the bank's data quality in relation to the determination of the capital position. The Supervisory Review and Evaluation Process (SREP) takes place every year, when the supervisory authority assesses the bank and measures its risks. In the SREP decision, which the bank receives from the supervisory authority at the end of the process, key objectives are set to address any identified issues.

In 2018, NWB Bank participated in the SSM (Single Supervisory Mechanism) stress test conducted by the ECB. This stress test ran parallel with the EU-wide stress test, which was carried out by the European Banking Authority (EBA) and to which 48 different institutions were subject. For NWB Bank, in the baseline scenario, the stress test led to a CET1 ratio (capital buffer) of 62.7% at year-end 2020. Projections in the adverse scenario resulted in a CET1 ratio of 45.7%. In both scenarios, NWB Bank amply fulfils the minimum CET1 requirement of 9.25%. The SSM SREP stress test was based on the same methodology as that of the EBA stress test. This stress test assesses the resilience of European banks to extreme but plausible adverse market developments over a period of three years. The results of the stress test will be used as input in the regular SREP process.

NWB Bank updates what is known as the recovery plan every year. In a recovery plan, a bank describes the measures that it will take to stay afloat in a financial crisis. Every bank is required to draw up such a plan. 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 as well, in part based on the findings of the annual Supervisory Review and Evaluation Process and on the ECB's recommendations.

Besides the Single Supervisory Mechanism, 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. Of these two other pillars, the second pillar is particularly relevant to NWB Bank. With the entry into force of the Bank Recovery and Resolution Directive (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. The SRB adopts a resolution strategy for each bank. In early 2019, the SRB decided to apply a so-called simplified obligations plan in the case of NWB Bank. As a result, any insurmountable difficulties faced by the bank would be resolved through the national insolvency proceedings currently in force.

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 risk management is organised on the basis of the below risk management framework. This framework comprises various elements, which are explained below.

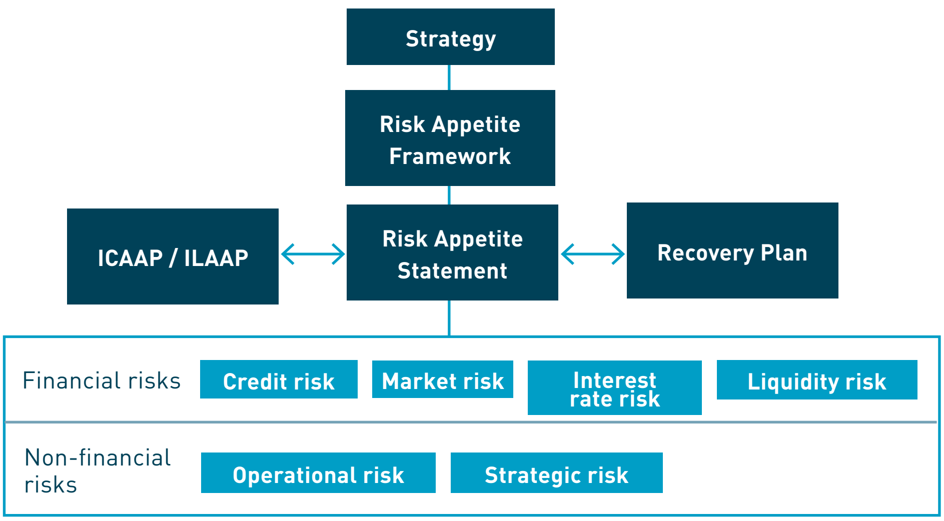
RISK APPETITE

NWB Bank is exposed to certain risks in achieving its strategic objectives. The degree and areas of risk that it is prepared to accept are set out in the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS). Both documents have been agreed with and approved by the bank's Supervisory Board. In 2018, the bank made further improvements to its RAF, revised the RAS, and further clarified the translation of the RAS into risk parameters and internal limits.

Credit risk

NWB Bank's borrowers are mainly public authorities and government-backed institutions. This situation results in low credit risk. The bank has diversified its lending in recent years so as to respond to the changing financing needs in the Dutch public sector. Examples include the financing of PPP projects, sustainable energy projects and government-backed export loans. Decision-making on risk-weighted lending takes place in the Credit Committee and is based on a credit proposal from the public finance department and an independent risk assessment from the risk management department. Throughout 2018 and indeed throughout its history, NWB Bank has never suffered a loan loss. Owing to the bank's specific business model, there is a concentration risk related to the Dutch public sector.

RISK MANAGEMENT FRAMEWORK



Interest rate risk and market risk

Credit risk is not the only risk with which NWB Bank has to contend. It has a low risk appetite in the area of interest rate and market risks as well, and therefore applies a strict hedging policy. The bank enters into derivative transactions with financial counterparties to hedge against interest rate and market risks.
This strategy inevitably results in counterparty risks. Collateral is exchanged on a daily basis to manage these risks 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 backloaded part of its existing portfolio for this purpose in 2018.

The bulk of central clearing in recent years takes place with the British company LCH. With Brexit in mind, NWB Bank sought to join Eurex Clearing in the past year so as to enable the bank to clear derivatives through Eurex as well as LCH. This process was set in motion before the European Commission introduced a 'no-deal' Contingency Action Plan at the end of December, in which LCH may be given 'third-party recognition' by the European Securities and Markets Authority (ESMA) after Brexit so it will still be possible to clear derivatives through LCH for the time being. As for the UK swap counterparties, with which the bank is not concluding or has not concluded centrally cleared bilateral derivatives, the bank is in the process of switching to EU entities of those institutions. Joining Eurex and moving UK swap counterparties to EU entities will ensure that NWB Bank's clearing of derivatives and concluding of bilateral derivatives will not be jeopardised by Brexit. The bank is also closely monitoring developments in the replacement of the Interbank Offered Rate (IBOR) benchmark rates.

Spread risk is one element of interest rate risk. This risk stems from one of the key characteristics of traditional banking business: the transformation of maturities. In the case of NWB Bank, its public-sector clients mainly request financing with a relatively long maturity. This fact generally has to do with the long-term investments that they make. Although NWB Bank is also able to raise funding with a relatively long maturity, the impact of a potential liquidity/credit spread widening in respect of net interest income in case of a maturity mismatch between funding and lending is acknowledged. To this end, NWB Bank applies a limit system.

Liquidity risk

NWB Bank funds itself almost entirely on the international money and capital markets, and it does not raise any deposits from clients. When raising funds, the bank takes express account of the diversification of geographical markets, investors, currencies, and funding programmes and instruments. As a result, in the unexpected event of money and capital market stagnation, NWB Bank has ample and adequate means of repaying funding as well as financing new loans at all times. The bank has more than sufficient liquid assets and collateral at its disposal, while virtually the entire portfolio of NWB Bank is accepted as collateral at DNB. In addition to a substantial liquidity buffer, the bank also holds an interest-bearing securities portfolio for liquidity purposes, comprising bonds issued or guaranteed by Dutch public authorities, bonds of international organisations and multilateral development banks, and covered bonds of Dutch banks, among other things.

Operational risk

The risk appetite for operational risks is low, while the bank's internal organisation, processes and systems are designed in such a manner that operational incidents and the associated losses are kept to a minimum. Quantitative parameters, including operational ranges, have been set for each operational risk area. In accordance with the Basel guidelines, these risk areas are defined such that NWB Bank has hedged its operational risk exposure.

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 signalling and tracking of new laws and regulations. A dedicated position of Compliance Officer was created in 2018 to ensure that the bank complies with all laws and regulations. This officer reports directly to the Chair of the Managing Board. A number of processes, including customer due diligence and transaction monitoring, are being updated with express account taken of the bank's risk profile.

An important principle in managing 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 at the same level as those of the Dutch State. The bank's ratings largely depend on the public-sector profile of its shareholders and clients, combined with its own strong solvency position.

RECOVERY PLAN

NWB Bank updated the Recovery Plan and submitted it to the ECB/DNB at the end of 2018. The recovery plan, which sets out the bank's recovery procedure following situations of severe stress, includes triggers for action. The bank's risk appetite is fully in line with the recovery triggers as defined in the recovery plan.

ICAAP/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. As such, the ICAAP is a key activity within the bank's capital management. One component of the ICAAP involves conducting stress tests to test the robustness of capitalisation. The Internal Liquidity Adequacy Assessment Process (ILAAP) is used to determine internal liquidity requirements. NWB Bank will again participate in the ECB's liquidity stress test in 2019. As the bank's risk appetite is expressed in capital and liquidity, it is directly related to as well as influenced by the ICAAP and ILAAP.

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 its control. 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 Executive Committee sets the risk management parameters. Within these parameters, the Asset & Liability Committee, the Credit Committee and the Non-Financial Risk Committee take decisions on the bank's risks.

OUTLOOK FOR 2019

Expectations are that the Dutch economy will continue to grow in 2019 but at a slower pace than in the past years. Government expenditure is set to increase in 2019. This is due to the spending boost in line with the coalition agreement and may result in NWB Bank's clients also increasing their levels of public investment. The water authorities have announced that, in any event, they will invest an additional €100 million annually to mitigate the consequences of climate change. The bank intends to maintain, and where possible further expand its lending level in 2019, taking into consideration its ambitions in the area of sustainability and further diversification.

The new long-term funding 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. To underline its sustainability ambition, the bank intends to raise at least 25% of its funding with Green and Social Bonds every year. It will have to redeem approximately €12.5 billion in long-term financing in 2018.

The bank projects a further personnel increase in 2019. This is necessary in light of its ambitions in the area of sustainability and the further diversification of its lending, as well as to safeguard the current level of professionalism and effectiveness of the organisation. It will also enable the bank to continue to respond to changing market developments and trends. Expectations are that operating costs will increase further in 2019, but the bank will nevertheless remain a compact and 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 2019.

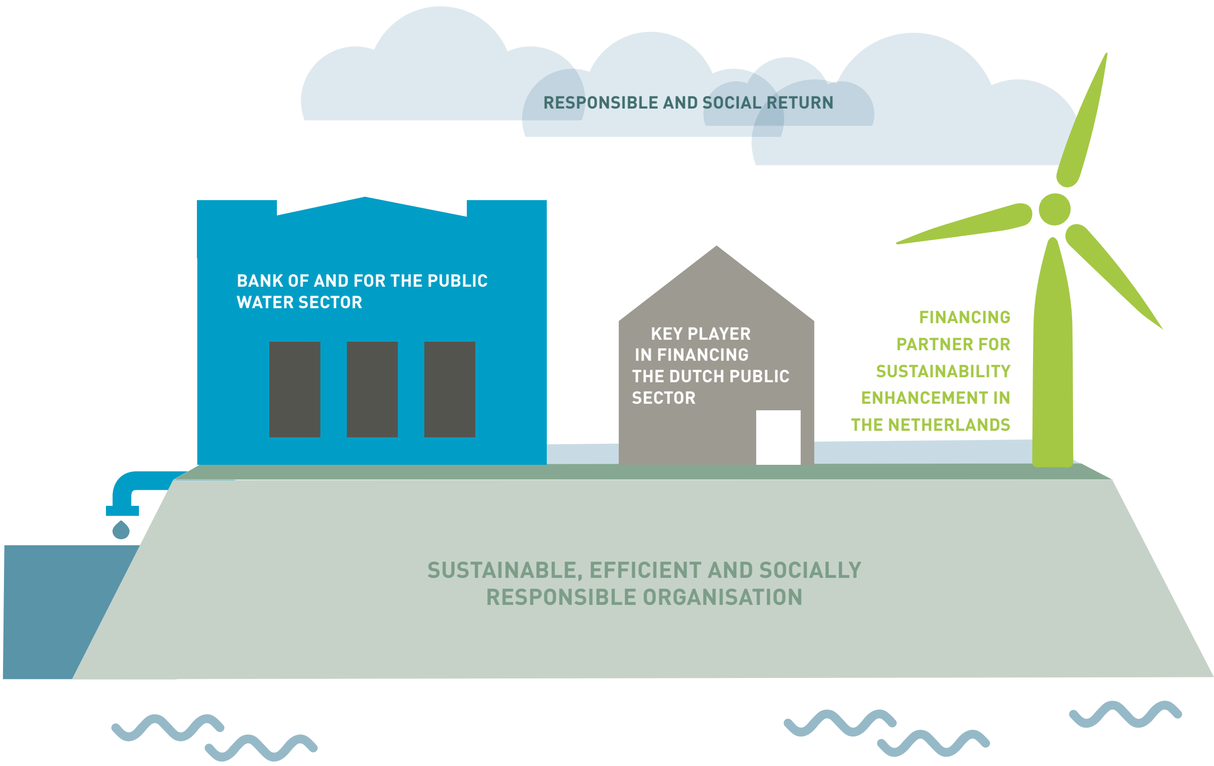
It is anticipated that the bank's net profit in 2019 will come out at a lower level than in 2018. The lower profit forecast relates to the composition of the lending portfolio and the anticipated further normalisation of money market rates now that the ECB is phasing out its extensive asset purchase programme.

THE SUSTAINABLE WATER BANK

Sustainable business practices are in NWB Bank's DNA. Since all its clients and shareholders are public-sector parties, NWB Bank as a bank of and for the Dutch public sector necessarily has different values from strictly commercial banks. These values are reflected in the bank's strategy and the way in which the bank has designed its internal organisation. The bank puts the public interest and long-term value creation in the centre of everything it does. Just as its clients, the bank itself seeks to set a good example when it comes to sustainable business practices[1].

FIVE STRATEGIC THEMES

NWB Bank's clients are front runners when it comes to sustainability and creating an inhabitable environment. In most cases, they have far-reaching ambitions in this area. For instance, the water authorities lead the way in the area of climate adaptation and mitigation. Furthermore, they are front runners in limiting their own energy consumption and generating their own sustainable energy. They intend to be 100% energy-neutral by 2025. Housing associations, another important client group of the bank, have committed themselves to increasing the sustainability of the current housing stock and it is their ambition that all social housing will be carbon-neutral by 2050. As well as providing affordable housing, housing associations also devote their efforts to creating a healthy and safe living environment.



1) For reasons of clarity, we will use the term sustainability to cover all social, environmental and governance dimensions in the remainder of this report.

The bank's Executive Committee, in liaison with the Supervisory Board and in consultation with its employees as well as its shareholders, reassessed the medium-term strategy over the past year. The outcome is that sustainability now has an even more prominent position in the bank's strategy. The revision of the strategy resulted in five strategic themes and associated objectives, on which the bank will focus in the years ahead.

In addition, the strategic themes form the clusters of a list of topics that the bank and its stakeholders have identified as material. Within this context, 'material' means that the topics are of relevance to both the bank and its stakeholders as well as that the bank has an economic, environmental and/or social impact on these topics.

The assessment of and reporting on these themes as well as the associated material topics are the basis for the contents of this chapter. An indication is given for each material topic, stating how the bank's strategy and policy were implemented in a sustainable way as well as the extent to which the various objectives set for the strategic themes were achieved. The chapter starts with an explanation of the way in which the bank has set up its organisation in the area of sustainability. Subsequently, the key stakeholders are identified and a description is given of how the bank compiled the list of material topics in collaboration with them.

MANAGEMENT APPROACH

The bank's strategy and medium-term strategic goals are translated at the tactical and operational level into a policy programme and specific annual plans. Specific sustainability objectives form part of them. The policy programme and the annual plans are laid down by the Executive Committee in liaison with the management team and the Supervisory Board. They are then translated into the objectives of the various departments and staff members involved.

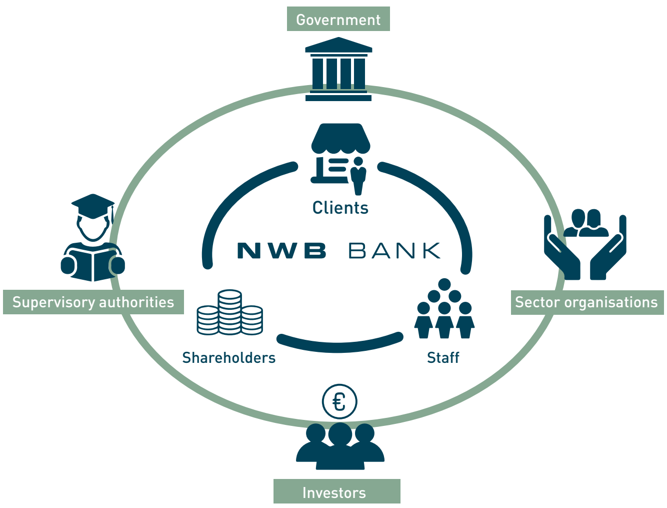
There is a Corporate Social Responsibility (CSR) Committee, whose specific task is to draw up, check and amend plans and policy changes directly related to sustainability. The CSR Committee is also responsible for drawing up the bank's CSR policy, which is published on the website of the bank. Both employees from various departments and the Executive Committee are represented on the CSR Committee.
The CSR Committee reports to the Executive Committee, which is ultimately responsible for policymaking, the management approach and the evaluation of the sustainability aspects of business.
It should be emphasised that the CSR policy is not reserved for the CSR Committee alone. For instance, it regularly features in Credit Committee meetings as an assessment criterion when decisions are made on whether or not to grant a loan.

In the past year, the decision was made to create a position for a sustainability coordinator with a view to making the internal organisation more professional in the area of sustainability and to improve the communication of the bank's sustainable strategy to the outside world. This person's tasks will include monitoring and calling attention to developments of relevance to the bank in the area of sustainability, stakeholder management and reporting. The bank anticipates that this additional capacity and the cooperation with the front office will result in an even greater emphasis on sustainability within our market approach.

NWB Bank has tailored its management approach in respect of sustainability and its choice of GRI performance indicators to its relatively compact office organisation and to its role as financial service provider for the public sector.

STAKEHOLDER DIALOGUE

All individuals and organisations with whom the bank works, or who attach importance to the social role that NWB Bank fulfils, are being considered stakeholders. Obviously, the bank sees its shareholders, clients, investors, employees, supervisory authorities and the government as stakeholders. NWB Bank communicates with its stakeholders on a regular basis to find out what is going on in their domain. Maintaining and stepping up contact with those stakeholders as well as expanding the network of stakeholders is a continuous task, performed mainly by the Executive Committee. The Secretary to the Managing Board plays a coordinating role in this regard. Naturally, the various departments are also in constant contact with stakeholders on the matters for which they are responsible. 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. NWB Bank has a special email address for this purpose: mvo@nwbbank.com.



Shareholders

The bank has a limited number of shareholders, so there is personal contact with all shareholders. At a formal level, an Annual General Meeting of Shareholders (AGM) is held once a year. During this meeting, the Managing Board reports on the financial results and the policy pursued in the past financial year, and explains the bank's strategy. In addition, interim consultations are held with the shareholder water authorities twice a year and the Executive Committee has a meeting with the Ministry of Finance every quarter. During those meetings, trends in society that could affect the bank or its shareholders are discussed in addition to recent developments within the bank itself. Regular topics include corporate governance and laws and regulations, as well as the bank's role in the energy transition, for example. The bank also has regular, less formal discussions with its shareholders.

Clients

NWB Bank has around 900 clients. The bank seeks to establish a long-term relationship with its clients, which, where possible, goes beyond lending transactions. All of the bank's clients are part of or operate in the Dutch public sector. Therefore, they have a great sense of social responsibility. A number of the bank's client groups, namely municipalities, water authorities and provinces, are held accountable for the policies that they have pursued every four years through elections. In the intervening period, the performance of their tasks is monitored by public opinion. However, the democratic monitoring of these institutions' performance does not prevent NWB Bank from calling on these and other clients to pay additional attention to their sustainability policies and performances during meetings with them.

The bank regularly organises 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 partly based on client input. The high turnout is a confirmation that client events address a real need. NWB Bank also holds presentations on specific topics at client network meetings, regional consultations, symposia and thematic meetings.

NWB Bank will launch a digital client portal in the first half of 2019 to further facilitate contact with and service for clients. NWB Portal will be made available to all of the bank's clients via the internet, free of charge.

Clients can lodge any complaints under NWB Bank's General Terms and Conditions and complaints procedure. As in previous years, the bank received no complaints in 2018.

Investors

NWB Bank largely funds itself on the international capital market via the issuance of bonds. It focuses its efforts on attracting and retaining investors who include not only financial and economic considerations in their decision-making but also sustainability aspects. For this reason, the bank has been actively issuing SRI (Socially Responsible Investing) bonds in the form of Water Bonds (Green Bonds) and Affordable Housing Bonds (Social Bonds) since 2014.

The Executive Committee and treasury department staff consult regularly with investors and potential investors in the bank's bonds; for example, during road shows that are organised to explain what the bank is all about on the one hand and to find out what investors consider important on the other. Since the bank has been actively issuing Green and Social Bonds, it is increasingly common for the bank to invite investors themselves to visit sustainable and social projects that are financed with the funds provided by them. These events are called reverse roadshows.

NWB Bank actively seeks dialogue with investors on sustainability. For their part, investors keep the bank on its toes, deploying research agencies to assess its CSR policy and transparency. NWB Bank always facilitates these research agencies in their assessment; for instance, by completing questionnaires and providing additional information. The feedback from its investors and these agencies provides the bank with input that it uses to identify areas requiring improvement for its own CSR policy.

Staff

NWB Bank's Executive Committee aims for an open dialogue among its staff members as well as between staff members and the Executive Committee. The bank sets great store by its informal and open culture. The informal knowledge-sharing sessions known as brown bag sessions are a good example of this culture. During a lunch break, staff members are invited to tell their colleagues more about a specific subject that interests them, with or without someone from outside the bank. Two such sessions took place in 2018, when artificial intelligence and diversity were the subjects discussed. The brown bag sessions at the bank are the initiative of the NWB Young Professionals. The Executive Committee has lunch with this group at least once a year to obtain a picture of the issues that concern them.

The Works Council is the official consultative body between the Managing Board and employees. The Managing Board held a consultation with the Works Council three times in the past year. The subjects discussed included strategy and working conditions. The Works Council was also involved in the appointment of the new CEO and CFO.

The bank has a whistleblower scheme, enabling employees to report any suspicions of general, operational or financial irregularities within NWB Bank without endangering their legal position. Employees may choose to report a matter to their direct line manager or to another line manager within NWB Bank who holds a position similar to or more senior than the employee in question. Employees may also take their reports to the Compliance Officer. The whistleblower scheme was updated in 2018 in accordance with new laws and regulations. No use was made of the whistleblower scheme in the past year.

Supervisory authorities and sector organisations

NWB Bank's Executive Committee and employees consult the supervisory authorities on a regular basis. The bank is subject to the supervision of the ECB/DNB and the Netherlands Authority for the Financial Markets (AFM). The supervisory authorities are also demanding increasing attention to sustainability and are emphasising the climate-related financial risks that financial institutions face. The bank engages in these consultations independently as well as jointly through the Dutch Banking Association's Sustainability Platform and the European Association of Public Banks.

Government

NWB Bank is a bank of and for the government. It enjoys good relationships with both the local authorities and the 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 holds regular consultations with the Ministry of Interior and Kingdom Relations as well as with the Social Housing Guarantee Fund (WSW) on the social housing market. The issuance of Green Bonds is another area in which the bank provided the government with information over the past year. The bank shared the experience that it has gained in this area with the Dutch State Treasury Agency of the Ministry of Finance, after the House of Representatives had called for the Dutch State to consider funding itself this way as well.

As an institution with a banking licence, NWB Bank is subject to specific laws and regulations. Examples include the prudential rules pertaining to capital, remuneration policy and taxation. For this reason, there are regular consultations at the national as well as the European level with various institutions.

If they wish, banks may join forces with other banks, including through the Dutch Banking Association and the European Association of Public Banks.

MATERIALITY ANALYSIS

Every year, NWB Bank identifies the material topics on which it will report in its annual report[2]. The assessment of these topics forms the foundation of the contents of this chapter. To determine whether a topic is sufficiently relevant and material to merit reporting, both the perspective of the stakeholders and that of the bank itself are taken into account. Consideration is also given to the potential or actual economic, environmental and social impacts of each of NWB's material topics.

In 2018, as in previous years, a so-called materiality analysis was again carried out on the topics that are important to the bank. The topics emerged from discussions with stakeholders, desk-based research and comparisons with similar banks. The long list of topics initially composed was then reduced to a short list based on an assessment of their relevance to stakeholders. The importance of a topic to NWB Bank is determined in the CSR Committee.

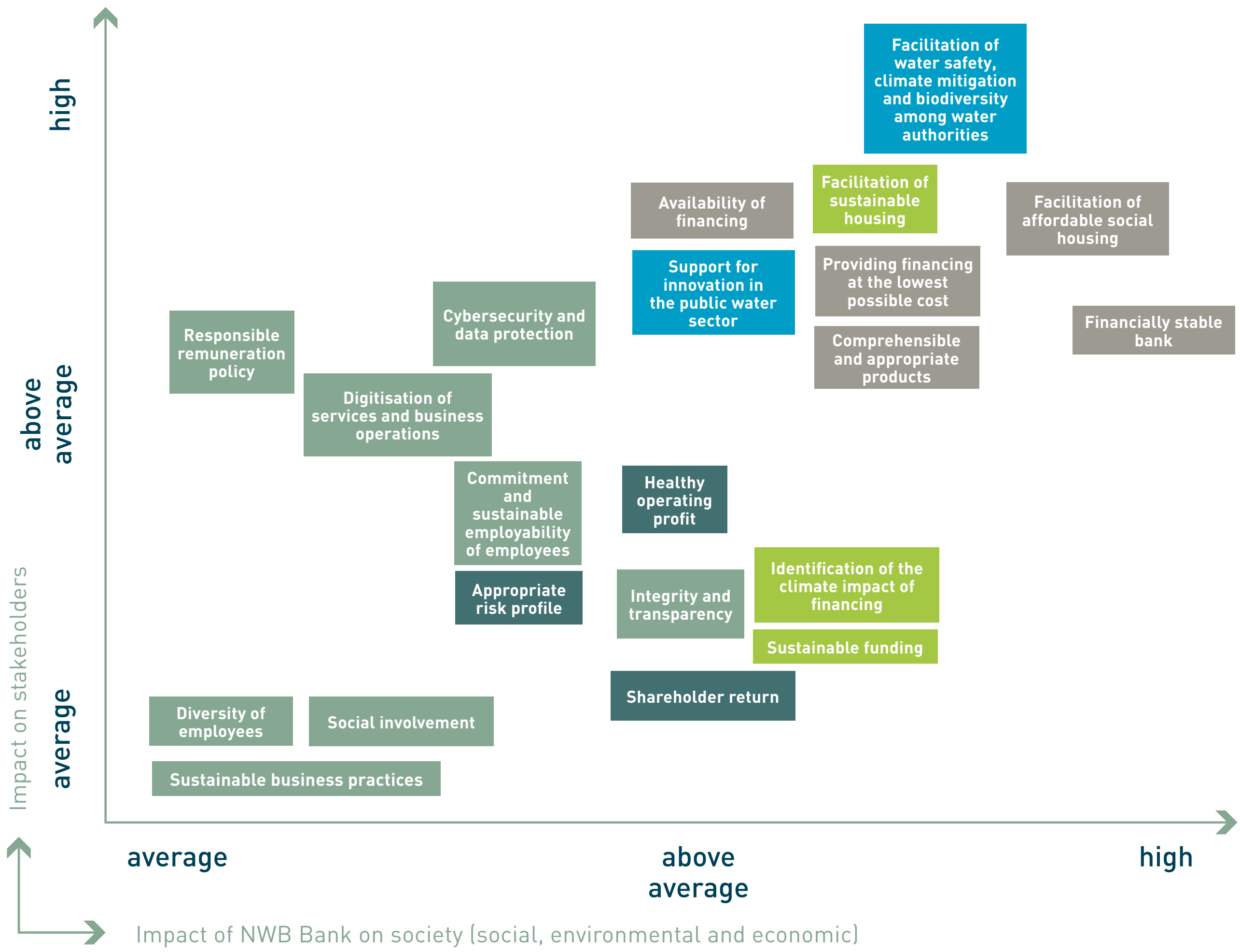
Material Topics Plot

Using the short list, the CSR Committee draws up a Material Topics Plot (MTP). The potential or actual social impact of NWB Bank on these topics is plotted on the x axis. The y axis plots the importance that stakeholders attach to the topics, according to NWB Bank's assessment.

2) The use of material themes results from NWB Bank's application of the GRI Sustainability Reporting Standards. NWB Bank uses the Universal Standards when reporting information in its annual reports, while it also mentions specific standards related to the topics categorised as material. As part of the Universal Standards, the bank is required to identify the topics that it deems material.

A draft version of the MTP was agreed with clients and shareholder water authorities at a client event. This event produced several amendments, after which the MTP was finalised. For instance, the topic 'availability of financing' was added. Since an annual review is carried out to identify which topics should be deemed material, topics which previously featured in the MTP may no longer be included in it for the current year. Explanatory notes on the graph can be found in the GRI table on the website.

MATERIAL TOPICS PLOT



Material topics	Strategic themes	Key performance indicator	Ranking
Facilitation of innovation in the public water sector	Bank of and for the public water sector: the sustainable water bank	Partnership of the Water Innovation Prize	7
Facilitation of water safety, climate mitigation and biodiversity among water authorities		Green Bonds volume Volume of lending to water authorities/market share in the financing of water authorities	1
Providing financing at the lowest possible cost	Key player in financing the Dutch public sector	Triple A rating (identical to the Dutch State)	5
Financially stable bank		Achievement of benchmark target return. Financial ratios	3
Availability of financing		Total lending volume/market share in the financing of the public sector	5
Comprehensible and appropriate products		Implementation of an internal product approval and review process for new products/markets	7
Facilitating affordable social housing		Social Bonds volume Volume of lending to housing associations/market share in the financing of housing associations	2
Sustainable funding	Financing partner for sustainability enhancement in the Netherlands	Volume of Green and Social Bonds as percentage of total funding	13
Identification of the climate impact of financing		Identification of the climate impact and other impact of loans granted Role as contracting authority of the Climate Monitor	10
Facilitating sustainable housing		Volume of lending to housing associations/market share in the financing of housing associations	3
Responsible remuneration policy	Sustainable, efficient and socially committed organisation	The policy is in line with national and international rules and regulations Ratio between Managing Board's and employees' remuneration	13
Integrity and transparency		Zero-tolerance policy on bribery and corruption Number of complaints Number of reports on bribery and corruption	12
Diversity of employees		Male-female ratio Age structure of workforce Complementarity of new employees	20
Social involvement		Internships filled Continuity of the NWB Fund	19
Commitment and sustainable employability of employees		Training budget spending Sickness absence Internal advancement	13
Cybersecurity and data protection		Cybersecurity training	9
Digitisation of services and business operations		Introduction of the client portal	13
Sustainable business practices		CO_2 emissions generated by business operations	21
Healthy operating profit	Responsible and social return	Profitability	10
Appropriate risk profile		Triple A rating (identical to the Dutch State). CSR ratings	17
Shareholder return		Return on equity Dividend payments	18

While some KPIs in this report are of a quantitative nature, others are qualitative. Where possible, these KPIs will be further elaborated in the coming year.

BANK OF AND FOR THE PUBLIC WATER SECTOR

Facilitating water safety, climate mitigation and biodiversity among water authorities

The water authorities notice the consequences of the changing climate on a daily basis. For this reason, they are making every effort to mitigate climate change, adapt their infrastructure to the changing circumstances and continue to ensure that there is an adequate supply of high-quality surface water. Keywords that best summarise this approach include climate mitigation, climate adaptation and the improvement of biodiversity. Thanks in part to its Water Bonds, NWB Bank ensures that the water authorities have sufficient funds to achieve these goals.

Climate mitigation: new approach to energy and raw materials

It is precisely because the water authorities have seen the severe consequences of climate change that they have ambitious targets in respect of the transition to a more sustainable energy supply and a more circular economy. They are doing their utmost to reduce their footprints by improving energy efficiency, reducing carbon emissions and closing the raw material cycles. By seeking to become energy-neutral as a sector by 2025, the water authorities intend to make a substantial contribution to the National Climate Agreement, which was presented in the Netherlands on 21 December 2018. The key target in this Agreement, aimed at countering climate change, is to achieve a 49% reduction in greenhouse gases by 2030 as compared with 1990 levels. This figure amounts to a reduction in greenhouse gases of 48.7 megatonnes (48.7 billion kilograms).

Climate adaptation: flood protection and modification of the water system

The rapidly changing climate is currently the water authorities' top priority. The heavy rainfall that until recently was not expected to be seen before 2050 is already a regular occurrence. Rainfall, drought and temperature records are being broken repeatedly. For instance, extremely heavy showers in May 2018 caused major disruption and damage, while the Netherlands has seldom seen a drier and hotter summer than last year's. Climate change increases the likelihood of flooding or excess water in extreme peak downpours, long periods of drought as well as heat stress in towns and cities. The water authorities are adapting their infrastructure to the new climatic conditions, referring to this process as 'climate adaptation'.

Ensuring an adequate water supply is one of the water authorities' core tasks. An adequate quantity of water is vital for the agricultural and recreation sectors, nature, the collection of drinking water, industry, and the shipping and fishing industry. This fact means that flooding and water shortages must be limited as far as possible. The climate change now under way is making this challenge ever greater. To this end, the Freshwater Delta Plan was presented in 2016 and the Delta Plan on Spatial Adaptation in 2017, with the aim of ensuring that the country is water-robust and climate-proof by 2050. Alongside the central government, the municipalities, the provinces, private parties and companies, the water authorities are investigating which measures prove the most effective to reduce the effects of changing circumstances as much as possible. As a consequence of this investigation, water authorities are to step up measures in order to prepare the Netherlands better for extreme weather: for instance, they will establish new water storage areas, increase the capacity of existing water systems and expand the number of pumping stations.

The Delta Plan on Spatial Adaptation is not the first initiative aimed at preventing flooding as far as possible. Standards were drawn up to counter 'unacceptable flooding' in 2003. They were laid down by the central government, the provinces and the municipalities in the National Administrative Agreement on Water. Under this plan, each water authority region is provided with standards by the provinces, after which they must put in place measures to ensure that their regions comply with these standards.

Biodiversity: waste water purification and other measures

The water authorities are also working to ensure that surface water is clean and ecologically healthy. They are aiming not only to obtain optimum water quality for water users (such as the agricultural sector, anglers, recreational boaters and swimmers) but also healthy biological and chemical conditions for the flora and fauna living in the water. The water authorities are doing so using two methods:

- the purification of the waste water produced by the 7.8 million households and 1.7 million businesses in the Netherlands;
- measures for surface water to improve living conditions in and around the water as well as to prevent spills and dumping of contaminated substances in the surface water.

The water authorities use their 327 sewage treatment plants to make sure that waste water is clean enough to be drained in the surface water without any adverse effects on water quality. The extent to which the substances that are most harmful to surface water are removed from the waste water gives a good indication of the quality of the water authorities' waste water purification processes. Those substances include phosphate and nitrate compounds, as well as oxygen-binding substances. Pursuant to European legislation, 75% of both the phosphates and the nitrates must be eliminated from the waste water. In the Netherlands, a minimum of 90% is applied for oxygen-binding substances.

Support for innovation in the public water sector

Financing innovation in the water sector

Innovation is a major catalyst for sustainability improvement. To this end, NWB Bank will consult clients in the water sector on broadening the ways in which it can support them. In this context, the bank actively seeks cooperation with other parties willing to take on the more risk-bearing portion of the financing. One of those parties could be 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 financing in the market. The bank views the activities that Invest-NL is set to carry out expressly as complementary to its own financing options, which is why it will actively seek to work in partnership with it.

Water Innovation Prize

Jointly with the Association of Dutch Water Authorities, NWB Bank awards the annual Water Innovation Prize to innovative projects that are in keeping with the water authorities' mandate and responsibilities: water safety, clean water and an adequate water supply. Every year, an additional theme receives particular attention. This year, the circular economy was the theme and a prize was awarded in that category as well.

The water authorities are constantly on the lookout for new ways of improving water management as well as making it cheaper and more sustainable. The Water Innovation Prize is an ideal way to learn about and share new, smart ideas. As a result, the winners of the 2018 Water Innovation Prize also received the assistance of an innovation broker as part of the prize. This broker will examine with them the ways of improving the innovation and bringing it to market.

"As a member of the jury, it was a treat to see all these innovative ideas. While choosing nominees and the winner was a daunting task, we stand firmly and unanimously by our choices. The ideas and projects introduced by the winners give me faith in the future of water management in the Netherlands. The Water Innovation Prize proves that there is no shortage of the knowledge, creativity and innovative capacity required to meet the major challenges of present-day society."

Lidewijde Ongering, Chair of the Water Innovation Prize jury

The winners of the 2018 Water Innovation Prize are as follows:

- Winner in the Water Safety category: The 'Grofzandbarrière' entry of Rivierenland Water Authority, Deltares and POV Piping;
- Winner in the Clean Water category: The 'New Hart purification' entry of Hollands Noorderkwartier Water Authority and PWN;
- Winner in the Adequate Water Supply category: The 'Boeren aan het roer' entry of De Stichtse Rijnlanden Water Authority;
- Winner in the Circular Economy category: The 'SUPERLOCAL' entry of Limburg Water Authority;
- Winner of the Public Award: The 'Koningshoeven NextGen' entry of Abdij OLV Koningshoeven and De Dommel Water Authority.

NWB FUND

NWB Bank established the NWB Fund in 2006. The fund is independent of the bank and co-finances international partnership projects run by the water authorities, known jointly as the Dutch Water Authorities (DWA). It helps them to meet the demand for their expertise in solving global water-related issues. With projects in Colombia, Burkina Faso, Ethiopia, Romania, Indonesia and Vietnam, among other countries, Dutch water authorities play an active part in virtually every continent. The fund's initial capital in 2007 was €4 million. The amount was increased in 2008 and subsequent years to reach more than €20.5 million. Using the interest income on this capital, the NWB Fund makes available €800,000 each year for the financing and support of water authorities' international partnership activities.

New developments: the Blue Deal

The past year saw the emergence of a new form of financing for Dutch water authorities: the Blue Deal. Water authorities have joined forces with the Ministry of Infrastructure and Water Management and the Ministry of Foreign Affairs in order to finance long-term and enduring partnerships in the period until 2030. For members of the Dutch Water Authorities, this partnership means they will start contributing about €2 million a year jointly in the years ahead. That amount will then be doubled by the Ministries. The Association of Dutch Water Authorities will hold the secretariat for the Blue Deal. The NWB Fund has made funds available to achieve this outcome.

Focus on long-term cooperation, diversity, increased professionalism and communication

The advent of the Blue Deal is a good thing because it is a means of establishing long-term and enduring partnerships with foreign partners. The commitment of both partners will be an important focus in this new setting.

Since the Blue Deal has largely the same objectives as the NWB Fund, it will require a change of course on the part of the NWB Fund. A number of expenses that were previously financed by the NWB Fund will now be taken care of by the Blue Deal. The great advantage of this situation is that it will improve the targeted use of resources by the NWB Fund. To turn the Blue Deal into a success, the NWB Fund intends to support Dutch water authorities as far as it can by focusing on the diversity of teams, increased professionalism and better communication on work carried out overseas. Successful projects rely on good teams, professional implementation, knowledge-sharing and clear communication about the results. For that reason, the NWB Fund will function largely as a facilitator within the Blue Deal with a view to generating even more lasting impact overseas.

The NWB Fund will continue to contribute actively to exploratory missions, international activities not covered by the Blue Deal and new opportunities for cooperation that will help to increase this impact.

Banger Polder, Semarang, Indonesia

Semarang was once one of the greatest ports and trading posts for the Dutch East India Company. The old heart of the city is undergoing a major transformation, in which dozens of old and dilapidated buildings from the colonial era are being renovated. The municipality has thrown itself into giving the old city a face-lift. Semarang is keen to offer more to the tourists from the cruise ships that call in at the port. Banger Polder is sandwiched in between the old city and the port area. It is a poor neighbourhood with around 80,000 inhabitants. Each day for twenty years, sea water flowed into the streets and houses unhindered. What sometimes began as a small amount of water rose to a good 10 to 20 cm over time because of subsidence.

The municipality would sometimes raise the street levels in its battle against the water. While residents raised the floor levels in their houses as best they could, most businesses left the area. In short, poverty increased and habitability decreased.

Thanks in part to NWB Fund, the neighbourhood is now dry. A compact dyke keeps the seawater out and a new pumping station regulates the water level in the river. With funds from NWB Fund, Dutch Water Authorities (DWA) has been supporting the municipality of Semarang for ten years in its efforts to make Banger Polder a seawater-free area. This operation was complex; the real challenge lay not so much in the construction of a dam and a dyke but in bringing together the municipality and the interested parties from the surrounding area in order to make plans, take decisions and implement them jointly. On the initiative of the Dutch water authorities, a dialogue was initiated between the interested parties in the neighbourhood (citizens and businesses) and the municipality on the subject of drainage.

At first, residents of the neighbourhood appeared to have little faith in the local government. As earlier promises had not been kept, residents and businesses felt ignored. The dialogue resulted in the formation of a 'polder board' comprised of a number of citizens and entrepreneurs from the neighbourhood, plus three professors from the University of Semarang. The board acts as an advisory platform for the mayor. Residents and businesses are prepared to pay to keep their neighbourhood dry, which makes sense as the costs of keeping it dry turn out to be substantially lower than the costs of the daily battle against the water.

Starting as a forgotten, poor neighbourhood, Banger Polder and its residents have become an example of cooperation between Indonesia and the Netherlands. This project involved close collaboration between the municipality of Semarang and the water authorities, where knowledge was shared, plans were made, support was sought, and work was performed, assessed, adjusted and sometimes partially restarted. It was an intensive, but above all highly instructive process for both the Indonesian and the Dutch partners.

Indonesia has many more 'Banger Polders' – districts where residents are losing the battle against rising water levels (on account of subsidence and the rising sea level). The lessons learnt in Banger Polder could help to tackle the problems in those areas at a faster pace.

The original situation in Banger Polder – water flooded the streets every day

Pavements and entrances were raised for drainage purposes

The streets look good again, people are healthier and the business community is returning to the neighbourhood

During a trade mission in Indonesia, the new Banger Polder pumping station was commissioned by Prime Minister Mark Rutte and his Indonesian partners

KEY PLAYER IN FINANCING THE DUTCH PUBLIC SECTOR

Providing financing at the lowest possible cost

NWB Bank was formed in 1954 by the water authorities. From the outset, other public and semi-public organisations could turn to the bank for attractive and appropriate financing. By catering efficiently to the financing needs of clients as well as by virtue of its high creditworthiness and financial expertise, NWB Bank is able to raise more than sufficient funds on the international money and capital markets under attractive conditions. The benefit is passed on to the bank's clients.

In the past decade, the bank provided loans totalling more than €65 billion. With total assets of approximately €84 billion, based on 2017 data, NWB Bank is the fifth-largest player in the Dutch banking landscape. Especially in the public sector, the bank contributes to a competitive, varied and innovative playing field, where public funds are handled efficiently and effectively.

NWB Bank raises its funds via the international money and capital markets. The bank has concluded a number of loan agreements with the European Investment Bank (EIB) since 2016 and, in the past year also with the Council of Europe Development Bank (CEB) for the first time. These supranational institutions are able to finance themselves even more inexpensively, where necessary. By collaborating with them, NWB Bank is able to provide the public sector in the Netherlands with even more attractive financing. It also means that smaller projects and clients, which would otherwise be ineligible, can benefit from low-cost EIB and CEB financing. The bank intends to continue providing its clients with this type of financing in 2019.

Availability of financing

NWB Bank is a reliable lender of and for the Dutch public sector which, in principle, is always available for existing or new clients. All of the bank's clients are always provided directly with quotes for cash and long-term loans. NWB Bank also provides quotes for loans with principal amounts below €1 million, so it can also serve clients with relatively modest financing needs.

Before a loan is granted, clients are subjected to the CDD (Customer Due Diligence) policy, i.e. the client validation process. The bank requests specific client information to identify the client's purpose to apply for a loan. Sustainability criteria are also taken into account when a loan is due to be granted. These criteria, which are an integral part of the bank's CSR policy, pertain to both the bank's loan and the liquidity portfolio.

The bank offers its lending solely in the Dutch public sector. This restriction is laid down in the objects clause in Article 2.1 of the Articles of Association. The Equator Principles are applied to social and environmental risks when assessing Dutch infrastructure PPP projects and sustainable energy projects. The environmental risks in particular are assessed for Dutch PPP projects. All PPP projects financed by NWB Bank come within product category B (projects with a limited social or environmental impact) and the Equator Principles have been declared applicable to them.

Once clients have been validated and a loan has been taken out, NWB Bank gives its clients all the attention they need, regardless of size or volume of lending. For instance, the bank in principle always responds to requests for face-to-face meetings and, if requested, is at all times prepared to consider bespoke arrangements. Requests for 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. Transactions involving the takeover of derivatives were also concluded in 2018. In these transactions, derivatives (and the accompanying liquidity commitments) of clients with commercial banks are taken over by NWB Bank and converted into fixed-interest loans. As a result, these clients are able to use the liquidity that have been released for their core tasks or to reduce the outstanding debt.

ONE THIRD OF SOCIAL HOUSING IN THE NETHERLANDS IS FINANCED BY NWB BANK

Facilitating affordable social housing
NWB Bank is one of the largest providers of finance for Dutch social housing. Roughly one third of social housing in the Netherlands is financed by NWB Bank (based on financing needs). This Social Housing Guarantee Fund (WSW)-guaranteed financing, with the central government and municipalities 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 some parties interviewed, the benefit lies in a range of between 80 and 160 basis points (source: 'Survey into the added value provided by the WSW guarantee system' conducted by Deloitte on 2 October 2015). Based on a portfolio of around €30 billion, this benefit amounts to between €25 million and €50 million sector-wide.

Comprehensible and appropriate products
NWB Bank always tailors its products and services to the client's needs and knowledge, 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 and Review Process (PARP) before being offered to clients. This process ensures that products are tested on their suitability for a specific client group, among other criteria. The internal PARP is one of the subjects addressed in the Dutch Banking Code (see: Corporate Governance) 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.

Financially stable bank
Throughout 2018 and indeed throughout its history, NWB Bank has never suffered a loan loss. In 2018, NWB Bank again found itself in the top ten of the world's safest banks, taking sixth place to be precise[3]. Thanks to its excellent creditworthiness, underlined by the AAA/Aaa 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.

3) The list of the world's safest banks is published annually by the financial magazine Global Finance and compiled by comparing the long-term credit ratings and total assets of the top 500 banks worldwide.

FINANCING PARTNER FOR SUSTAINABILITY ENHANCEMENT IN THE NETHERLANDS

Sustainable funding

NWB Bank tries to raise sustainable funding, as far as possible. Minister of Finance Wopke Hoekstra even cited NWB Bank as an example to demonstrate that publicly held enterprises are becoming ever greener. He also mentioned that NWB Bank raised a quarter of its long-term funding with so-called Green and Social Bonds in 2017[4)]. In 2018, NWB Bank raised €2.7 billion in funding with Green and Social Bonds. This fact means that the bank also achieved its own objective that each year at least 25% of its funding needs are met with what are known as SRI (Socially Responsible Investing) bonds. A total issued volume of €8.8 billion puts the bank among the world's leading SRI bond issuers within the group of SSA (Sovereigns, Supranationals and Agencies).

The bank has been issuing Water Bonds (Green Bonds) since 2014 and has already raised a total of €4.1 billion in sustainable funding this way. The proceeds from NWB Bank's Water Bonds are used to finance Green Bond Eligible Projects by the Dutch water authorities that target climate mitigation, climate adaptation and biodiversity, among other things. The water authorities have set themselves ambitious targets when it comes to sustainability and investors are keen to contribute to them with the funds that they provide. The bank publishes a Green Bond Newsletter every year so investors can see how their money is spent. This detailed report also sets out how the bank's Water Bonds contribute to the achievement of the Sustainable Development Goals.

The bank began issuing Affordable Housing Bonds (Social Bonds) in 2017 and has already raised €4.7 billion in sustainable funding this way in a period of just two years. The proceeds from the Affordable Housing Bonds will exclusively be used for the financing of social housing. The Netherlands has an extensive system for social housing, which provides people in lower income groups with high-quality and affordable accommodation. The bank also publishes an annual detailed report on its Social Bonds to show investors how their money is being used. The Affordable Housing Bond Newsletter also describes how these bonds contribute to the achievement of the Sustainable Development Goals.

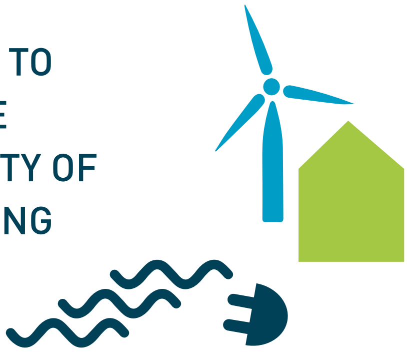
Facilitating sustainable housing

In terms of volume, housing associations are NWB Bank's largest client group. As they own roughly one third of the housing stock in the Netherlands, it is not surprising that they are playing an important part in enhancing the sustainability of the built environment in the Netherlands. NWB Bank facilitates this process by providing appropriate financing at the lowest possible cost to keep sustainability improvements affordable. A good example is the €300 million loan that the Council of Europe Bank (CEB) placed at the disposal of NWB Bank in 2018, which the bank will use to invest in improving the sustainability of social housing, among other things. The cooperation between the CEB and NWB Bank is designed to provide the public sector in the Netherlands with funding at even more attractive rates. Since NWB Bank is committed to providing at least the same amount, a minimum sum of €600 million in public investments will be mobilised. The government has devised various ways of encouraging housing associations to invest in enhancing sustainability, although housing associations themselves clearly already recognise the importance of a sustainable Netherlands.

Financing partner for sustainability improvement	Target	Achieved	Target	
	2018	2018	2019	Medium term
Volume of Green and Social Bonds (as % of total funding)	25%	26%	25%	25%
Identifying the impact of loans granted, including the impact on climate	Lending to water authorities	Lending to water authorities	Lending to water authorities	Total portfolio

4) Annual report on the Management of Publicly Held Enterprises 2017

€600 MILLION TO ENHANCE THE SUSTAINABILITY OF SOCIAL HOUSING AND WATER AUTHORITIES



Housing associations have agreed to take substantial additional steps towards enhancing the sustainability of their existing housing stock, for example in the National Housing Agenda. 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 houses have a clear advantage: they live in more comfortable conditions and their energy costs tend to be substantially lower. In line with the Housing Agenda, associations are aiming for an average ‘B’ energy label throughout the sector by 2021.

Identification of the climate impact of financing

One of the strategic goals the bank has set for itself is to identify the impact of its entire loan portfolio on the climate. As a result, the bank will gain an idea of its clients’ carbon footprints and it could use that information to influence their sustainability policies. This factor is one of several that the bank takes into account when considering new loan applications.

In December 2018, the entire financial sector signed up to the draft National Climate Agreement on its own initiative. The draft text includes a joint commitment to report on the impacts of lending and investments on the climate as from 2020. NWB Bank joined the Platform Carbon Accounting Financials (PCAF) in 2018 with a view to identifying the carbon impact of its financing operations.

The bank started with the water authorities when identifying the impact on the climate of its financing operations. Jointly with the Association of Dutch Water Authorities, NWB Bank commissioned the Water Authorities Climate Monitor 2017 in order to obtain sufficient and especially high-quality data. This annual study, which was conducted in the past year by Arcadis, shows the contribution made by the water authorities to the national goals aimed at reducing carbon emissions and producing as much sustainable energy as possible. The Climate Monitor shows that the water authorities achieved a 52% reduction in carbon emissions during the period between 2005 and 2017 alone. At 33.9%, they are also on track to produce 40% of their own energy requirements by 2020.

Identifying the climate impact of its lending is an important step towards setting out objectives for the ways in which the bank can contribute to achieving the Paris climate targets. The financial sector has committed itself to the draft National Climate Agreement. No later than in 2022, the sector will set out in action plans how the agreement will be implemented. NWB Bank will at the very least meet this commitment. The bank will analyse and, where possible, apply the recommendations of the Task Force on Climate-related Financial Disclosures in 2019.

> “The agreements made in the Paris Climate Agreement show the way to a carbon-neutral economy. The financial sector has a vital role to play here, because the actions that are needed to undergo this transition will require financing. The PCAF method enables financial institutions to measure the carbon impact of their actions and portfolios as well as to set targets. Climate change and the transition to a climate-neutral economy also entail risks for the financial sector. In our role as supervisory authority, we want institutions to identify and manage these risks effectively. If financial institutions take the right approach, we expect it to result in capital being reallocated to green activities,”
>
> says **Frank Elderson**, Executive Director of Supervision at De Nederlandsche Bank and Chair of the Central Banks and Supervisors Network for Greening the Financial System (NGFS).

SUSTAINABLE, EFFICIENT AND SOCIALLY RESPONSIBLE ORGANISATION[5)]

Sustainable business practices

The bank seeks to use its own internal organisation in order to set a good example in the area of sustainability. Although the relatively compact office organisation limits the impact on the environment, it is not preventing the bank from implementing a whole host of measures aimed at reducing its carbon footprint. Examples include measures to improve the sustainability of the office premises and encouraging the use of electric transport. For instance, only cars with zero CO_2 emissions will be purchased for the bank's employees and Executive Committee as from 2019. In addition, the bank is aiming to achieve an 'A' energy label for its office. The bicycle scheme was already modified and extended in 2017 to encourage more employees to commute by bicycle.

Commitment and sustainable employability of employees

The bank's contribution to society depends on its ability to attract and retain professional and committed staff. In 2018, the bank launched the Strategic Personnel Planning (SPP) programme to identify the development needs of the organisation and its employees for the medium term.

Sustainable employability

Sustainable employability is one of the spearheads of the bank's HR policy. Employees are actively engaged in the HR cycle and encouraged to think about their personal development. Those thoughts will then be discussed during the objective, evaluation and assessment interviews that employees have with their line managers. Prior to the interviews, employees are asked to provide more input on their own performance and development. Employees are also assisted in obtaining feedback from other colleagues.

To increase their sustainable employability, employees are expected to monitor developments in the bank's public domain. They must be able to adapt their knowledge, competences and skills to those developments. If they do not, it may ultimately have consequences for their mobility, so considerable attention is given to this aspect.

The bank encourages internal advancements. Every vacancy is first opened to internal employees. This approach resulted in five employees having taken new positions within the bank in 2018.

A sustainable, efficient and socially committed organisation	Target	Achieved	Target	
	2018	**2018**	2019	Medium term
CO_2 emissions from operating activities (p.p. in tonnes)	≤ 4	3.7	≤ 3.5	≤ 2
Energy label for the premises		F		A
Regular sickness absence	≤ 2 %	2.9 %	≤ 2 %	≤ 2 %
Training costs per employee	€3,250	€4,938	€3,228	80% of three-year moving average

5) Targets, objectives, results and other information about the office organisation are in part reported on 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.

TRAINING BUDGET SPENDING PER EMPLOYEE

Ample training budget

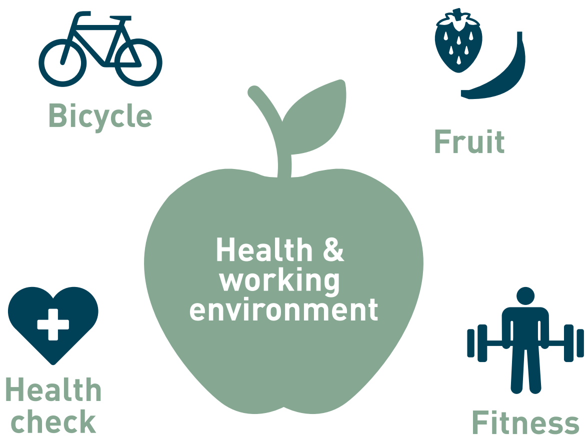
Providing an ample training budget is one of the ways that the bank encourages its employees in continuing to develop their knowledge and skills. This budget amounted to €250,000 in 2018, with an average of €4,938 being spent on each employee. As a result, the target of €3,250 per employee has been comfortably met. Note that the costs for learning on the job and coaching (by external parties, where necessary) are not included in these figures, even though this way of learning is an important feature within NWB Bank. One example is where new employees are partnered with a colleague who works in a different department within the bank during the onboarding process.

As well as individual training sessions, in-company training sessions are also regularly provided. In 2018, all of the bank's employees completed a training session on cybercrime and privacy legislation. The bank had planned to organise corruption/integrity training sessions in 2018, but they were replaced by the aforementioned sessions. Groups of employees also took part in courses on Structured Query Language (SQL), security awareness, capital requirements under Basel III and English language skills.

A bank-wide training framework was prepared in 2018 and will be rolled out in 2019. It includes the basic elements of relevance to the creation of a bank-wide and professional outlook. A distinction is made between the different target groups. Notwithstanding this training framework, the bank continues to stress the importance for every employee to continue working actively on their personal development. To this end, employees are and will continue to be given plenty of scope for showing initiative. The study trip made by a group of young employees of the bank to NRW.Bank in Düsseldorf, Germany is a prime example of such an initiative.

Health and working environment

A healthy working environment is essential if sustainable employability of employees is to be ensured. A focus on physical health is in keeping with NWB Bank's culture and policy of prioritising its staff. The bicycle scheme is a good example: 35% of staff currently use the scheme. This percentage has increased partly because the scheme was extended in 2017 to encourage employees in making greater use of green transport. On top of this, the bank offers an indoor gym and provides fruit to its staff every week.



NWB Bank aims for an absenteeism rate of below 2.0%. The actual rate in 2018 was 2.9%, owing to a rise in prolonged absenteeism.

Total sickness absence
2017 - 2.92% **2018** - 2.94%

Short absence up to 7 days
2017 - 0.75% **2018** - 1.09%

Medium-term absence up to 42 days
2017 - 0.49% **2018** - 0.35%

Long-term absence up to 365 days
2017 - 0.21% **2018** - 0%

Prolonged absence of > 365 days
2017 - 1.48% **2018** - 1.50%

Culture, behaviour and development

One major strength of NWB Bank is its pleasant and professional corporate culture, which recognises the importance of cooperation and engagement. Employees can readily interact with each other as well as with clients and other stakeholders of the bank. 'Conscious, engaged and reliable' are the core values of NWB Bank, which are firmly established within its corporate culture and code of conduct.

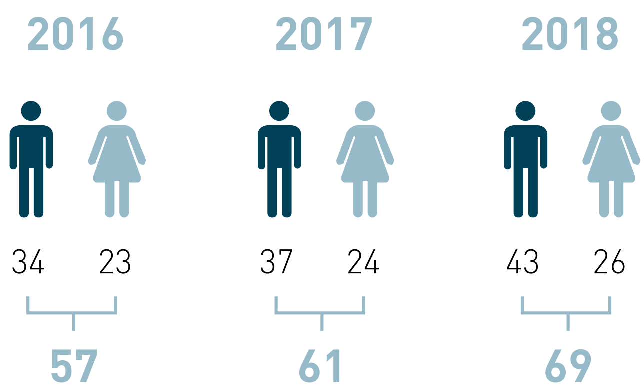
NWB Bank is still growing, while it is keen to maintain its open and accessible corporate culture. As a result, this aspect receives a great deal of attention during the recruitment of new colleagues. Social skills and competences play just as important a role as the level of education or work experience during the selection process.

To fill any gaps in awareness of culture and behaviour within the organisation, a culture-themed dinner was organised in 2018. Using propositions formulated in advance, the management team discussed a variety of themes among themselves and with the Executive Committee. Topics addressed were mobility, diversity, digitisation and flexible work. The MT members obtained input from their departments prior to the event. The culture-themed dinner resulted in a number of action points, some of which were followed up in 2018 and will be developed further in 2019.

Diversity of employees

NWB Bank seeks to recruit professionals who add diversity to its current workforce. For NWB Bank, diversity goes beyond gender. The bank wants its workforce to reflect society as far as possible, which is why explicit attention is paid to the preparation of a profile during the recruitment and selection process. For each vacancy, the profiles are examined to establish which will complement a team in terms of knowledge, skills, background and personal style. In the event of equal suitability, candidates who contribute towards the diversity within the bank will be given preference when vacancies arise. This way, NWB Bank aims to create a diverse workforce. A draft diversity policy was drawn up in 2018 with a view to communicating this aspiration more clearly. It was approved by the Supervisory Board in early 2019.

GENDER BALANCE



BREAKDOWN OF EMPLOYEES BY AGE CATEGORY

	2018		2017	
Age category	number of employees	%	number of employees	%
61 to 70	**1**	**1.4**	1	1.6
51 to 60	**18**	**26.1**	15	24.6
41 to 50	**29**	**42**	27	44.3
31 to 40	**12**	**17.4**	10	16.4
21 to 30	**9**	**13**	8	13.1

62% of our total workforce are male and 38% are female.

Integrity and transparency

Staff awareness of integrity

Integrity is 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 has a zero-tolerance policy 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 Executive Committee 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 bank's Code of Conduct. NWB Bank will never offer inappropriate commission, or anything that could be interpreted as such, to anyone or for any purpose. In 2018, NWB Bank received no internal reports of corruption or bribery.

Screening of new employees

Before joining, all of the bank's new recruits are subject to Pre-Employment Screening, regardless of their position. In addition, all employees in commercial roles and management team members must be listed in one of the registers of the Dutch Securities Institute (DSI).

Employees are required to sign a number of documents on the subject, including the banker's oath, NWB Bank's Code of Conduct, a Declaration of Confidentiality, the Insider Regulations and the Information Security Protocol. They are also advised of the privacy policy. The bank's screening policy was updated in 2018.

Social involvement

Provision of internships

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 students. The aim is to organise at least one internship per year and possibly more, depending on the availability of internal mentors. In 2018, the bank successfully completed the procedure to become an approved training company for senior secondary vocational course as an ICT manager, ICT administrative assistant, and network and media manager. As a result, the first trainee in ICT support engineering was able to commence work in the past year. The bank also supervised a trainee in the area of facility management and facilitated two job shadowing placements for pre-university students. Finally, a number of primary school pupils visited the bank in 2018 for a short period of job tasting.

Social return

In the past year, NWB Bank continued to work successfully with organisations that help people with a disability find a job and provide assistance in terms of participation in the labour market. Within that context, the bank set itself the target of purchasing a so-called Power Certificate from the Participation Certificate foundation, also known as Everyday Heroes. By purchasing a Power Certificate, the bank helps to find jobs for people who are at a distance from the labour market and ultimately offer them a future and a place in society as well. A Power Certificate costs €3,500 and that sum is used to remove the final obstacles to a workplace. The bank is keen to embrace new parties that concentrate on people who are disadvantaged in the labour market process.

Responsible remuneration policy

In its remuneration policy, NWB Bank seeks to express the role it fulfils in society, as a bank of and for the public sector. 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. Further information is provided in the Remuneration Report on page 102.

Digitisation of services and business operations

To improve the services that it provides to its clients while at the same time reducing the quantity of paper and postal correspondence, NWB Bank will launch a digital client portal in the first half of 2019. NWB Portal will be made available to all of the bank's clients via the internet, free of charge. Through the provision of a free tool with advanced reporting and analytical functionalities, the bank's clients will not need to use a system of their own.

NWB Portal is fast, user-friendly and accessible 24/7. Among other things, clients can view and analyse the details of their loans with NWB Bank as well as add the details of loans from other lenders. This way, users can analyse their entire loan portfolios and do not need to buy or use another system. Finally, NWB Portal provides access to rates for new loans and current market data.

Cybersecurity and data protection

Clients must be able to rely on their data being kept safe at the bank, which is why, over the past year, a large number of control measures were put in place to ensure that the bank's digital infrastructure functions properly at all times. The bank also implemented the General Data Protection Regulation (GDPR) in 2018. Employees have an important part to play in ensuring that the bank functions safely. For that reason, employees completed a training course aimed at raising awareness of information security and the GDPR in 2018.

SCHELDESTROMEN WATER AUTHORITY: ADAPTIVE CONTROL SYSTEM FOR POLDER PUMPING STATIONS

The polder pumping stations are responsible for 40% of the Scheldestromen Water Authority's energy consumption. De Dommel Water Authority has developed a new control system, which is able to handle not only high and low water levels but also weather conditions. This results in energy savings and more efficient drainage, which reduces the likelihood of flooding. It is also beneficial to fish migration, while it will counter soil salinisation and dehydration as well.

The control system operates independently, i.e. the pumping stations are not controlled centrally; the control program for each pumping station detects the tides and weather conditions itself (based on its own level measurements). In exceptional cases, automatic area control systems or remote manual interventions can be used, but such action is theoretically unnecessary for this control system. In nearly all cases, the pumping stations now go into operation only at low water, which leads to a considerable reduction in energy consumption. The reduction rate for polder pumping stations that discharge on tidal waterways is 15%–25%. This figure accounts for a reduction of a million kilowatt hours of energy per year, which is enough to supply more than 330 households with energy. The CO_2 reduction achieved with this initiative is 526 tonnes per year, or the equivalent of reducing the emissions of 65 households.

Electricity savings: 1 million kWh/year
CO_2 reduction: 526 tonnes of CO_2/year

Source: Scheldestromen Water Authority and 2017 Climate Monitor.

RESPONSIBLE AND SOCIAL RETURN

	Target	Achieved	Target
	2018		2019
Achieving benchmark target return	4.1%	5.9%	3.7%

Healthy operating result

NWB Bank refrains from pursuing profit maximisation, although a reasonable profit must be made to guarantee its continuity.

Shareholder return

NWB Bank has agreed a benchmark target return on equity with its shareholders. The bank intends to resume the payment of dividend for the 2018 financial year. Its primary aim is a social return. Everything that the bank does is about creating added value for society. Examples include reducing clients' CO_2 emissions as well as affordable and sustainable social housing. The bank is continually seeking new opportunities to extend its role as bank for the Dutch public sector and thus further increase its contribution to the enhancement of sustainability in the Netherlands.

Appropriate risk profile

Central to the bank's strategy 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 at the same level as those of the Dutch State. At present, the bank has the highest possible credit ratings: AAA/Aaa.

The bank also aspires to a high-quality risk profile in the area of sustainability. The bank's specific CSR policy and its implementation are assessed by special CSR rating agencies. In general, NWB Bank has strong sustainability ratings and plans to improve them where possible. It has CSR ratings from imug Beratungsgesellschaft in Hanover (Germany), ISS-Oekom Research AG in Munich (Germany), MSCI ESG Research in the United States and Sustainalytics in Amsterdam. The CSR rating agencies issue ESG ratings or scores based on their own ESG assessment framework. Further information about their assessment frameworks can be found on the websites of the agencies concerned.

CSR Rating Agency	Sustainalytics	MSCI	imug	ISS-Oekom
NWB Bank CSR Rating	69	A	BB	B-
CSR Rating Scale	1 to 100	CCC to AAA	DDD to AAA	D- to A+

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 Nations' 2030 Agenda for Sustainable Development, consist of 17 goals that member states must incorporate into their national policies. The 17 goals contain 169 sub-targets that must be achieved by 2030.

NWB Bank embraced the SDGs and analysed those that are of greatest relevance to the bank and its activities. In addition, NWB Bank discussed the impact that it has on the various SDGs with its stakeholders. The bank is aware that the SDGs require a 'holistic approach'. Focus helps us to make a difference with a significant impact. Below is an explanation of the eight SDGs on which the bank is focusing primarily[6)].

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

NWB Bank finds any form of discrimination unacceptable. This position is reflected in the bank's rules on undesirable behaviour in the workplace. The Collective Labour Agreement for the Dutch Banking Industry includes diversity guidelines and NWB Bank has committed itself to comply with them. In addition, the bank intends to sign the Diversity Charter, thus underlining its active efforts to achieve greater diversity and inclusivity in the workplace.

SDG 6: Ensure availability and sustainable management of water and sanitation for all

NWB Bank is the sustainable water bank, and it pays particular attention in all its activities to initiatives that contribute to water management and quality. At international level, this role is performed by the NWB Fund, which supports water projects in developing countries. One example of this support is the exchange of knowledge between the South African government and Dutch Water Authorities (DWA). Since the start of this project in 2004, research into the efficient use of water

6) The CSR policy and GRI table published on the bank's website provide a more comprehensive overview of the mapping of goals, targets, indicators and NWB Bank relevance.

has been conducted in both countries. As a result, South Africa now has a Dutch precipitation measurement programme, which is co-financed by the NWB Fund.

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all

NWB Bank is mindful of the climate adaptation and mitigation activities of entities such as water authorities and social housing associations, as well as the joint ambition to establish a circular economy when it finances those activities. The water authorities intend to produce 40% of their own energy demand by 2020 and to be 100% energy-neutral by 2025. According to the Climate Monitor, the former rate had already reached 33.9% in 2017, which means that the water authorities are on schedule. 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, while materials from demolished houses are reused. In addition, the objectives for the migration of energy labels are monitored. The percentage of housing association stock with a 'B' label or higher rose from 18% in 2012 to 30.4% in 2017.

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation

NWB Bank provides financing for initiatives such as Public-Private Partnership infrastructure projects, in the process applying the Equator Principles.

SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable

At least once a year, NWB Bank issues a Social Bond (Affordable Housing Bond). The proceeds of these bonds are exclusively used for the financing of social housing. These loans help housing associations to develop, maintain and improve their housing stock. Approximately 30% of households (about 2.3 million people) enjoy pleasurable living conditions thanks to the efforts of this sector. NWB Bank has a market share of approximately one third of the long-term financing guaranteed by the Social Housing Guarantee Fund (WSW).

SDG 13: Take urgent action to combat climate change and its impacts

NWB Bank has been a regular issuer of Green Bonds (Water Bonds) since 2014. The proceeds of these bonds are exclusively used for loans to the Dutch water authorities. The water authorities are responsible for protection against flooding, water management and water quality. Climate change adaptation is an integral part of their tasks. A substantial portion of the future investments in flood control and in water management will be made under the umbrella of the Dutch Delta Plan, a plan set up by the Dutch government to make the Dutch flood protection and water management schemes fit for the expected climate change in the coming decades. Both heavier rainfall patterns and longer periods of drought are taken into consideration.

NWB BANK | SUSTAINABLE DEVELOPMENT GOALS

5 GENDER EQUALITY | 6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 11 SUSTAINABLE CITIES AND COMMUNITIES | 13 CLIMATE ACTION | 14 LIFE BELOW WATER | 15 LIFE ON LAND

SDG 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

NWB Bank meets approximately 90% of the annual financing needs of water authorities. The water authorities are also working on clean and ecologically healthy surface water. They are aiming not only to obtain optimum water quality for water users (such as the agricultural sector, anglers, recreational boaters and swimmers) but also healthy biological and chemical conditions for the flora and fauna living in the water. Maintaining and improving biodiversity is a key focus area here.

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 water authorities' biodiversity projects. On the subject of biodiversity, 162 'Natura 2000' sites have been designated for the Netherlands. These sites are part of a network of nature conservation areas in the European Union. The aim of Natura 2000 is to prevent the decline of biodiversity. The water authorities contribute to the greatest possible maintenance of biodiversity by applying the code of conduct under the Flora and Fauna Act (Flora- en faunawet). All the maintenance work carried out by the water authorities on water systems is tested against that code of conduct.

DILEMMAS

The bank regularly encounters dilemmas when carrying out its activities and reporting. This section contains a number of issues in respect of which the bank has had to decide whether or not to take action based on its CSR policy.

Generic financing

In most cases, NWB Bank provides its clients with so-called balance sheet financing, where it is not a specific investment or a project that is financed but the client itself. As a result, the systematic application of sustainability exclusion criteria is often impossible or irrelevant. All of the bank's clients are part of the Dutch public sector and claim to be inherently sustainable. Nevertheless, the bank will not fail to question them on this subject and ask them to consider sustainable investments.

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 and Review Process (PARP) involves weighing the risks involved for both the client and the bank itself. As a result, the client may not always receive the product requested owing to the undesirable risks associated with the product for the client or the bank. This presents NWB Bank with a dilemma, as it seeks to assist its clients at all times, while also adhering to its carefully formulated policies.

New client groups

The public domain includes client groups with relatively limited financing needs. With its relatively compact office organisation, it is difficult for NWB Bank to provide these groups with efficient service. The amount of time involved in analysing the sector and the individual clients is often disproportionate to the size of the loan. Examples include relatively small loans to sports associations or senior secondary vocational schools.
If the bank allocated all the costs incurred for a sound analysis to the credit spread, it would lead to higher costs. However, due to the bank's social role, it decided against this choice and NWB Bank will continue to assist these small client groups as well.

Rebound clause for municipalities

Some of the payment agreements concluded by municipalities with their principal banks contain a rebound clause. A rebound implies that the principal bank is always given an opportunity to issue a second, better quotation. As NWB Bank believes that this clause is detrimental to a fair and transparent tender process, it refrains from submitting a tender in processes of this type. The rebound results in three dilemmas.
First and foremost, the bank seeks to provide financing to its clients at all times but cannot do so if it does not submit a tender. In addition, clients should receive a minimum of two quotations. When other finance providers will not offer quotations either if they know that a rebound is involved, those customers will often apply to NWB Bank anyway. 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

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, academic hospitals being the exception. In present market conditions where there is a high demand for medium-rent housing, for example, it could well be the case that those clients find it hard to obtain appropriate financing when NWB Bank rejects their request. Although the bank understands the sector's wishes in this regard, it considers that such non-guaranteed financing is not in line with its risk profile and risk appetite.

Social Bonds and Green Bonds

NWB Bank offers investors the opportunity to invest in its sustainable bonds. Besides traditional investment considerations such as investment safety and the risk-return trade-off, investors largely purchase the bonds specifically because of their interest in supporting climate-friendly and/or social projects. Since NWB Bank issues 'bearer bonds', the precise identity of the holders of those bonds is not known. Although order books are scrutinised and initial investors screened at the time of issuance, the bonds are tradable without recourse to NWB Bank. It is therefore possible that the bank's bonds are held by entities which do not apply sustainable business practices themselves.

Diversity versus privacy

NWB Bank sets great store by the diversity of its workforce. The bank is committed to having a workforce where individual employees complement each other in terms of their specific knowledge and experience, and collectively ensure a balanced representation of society. At the same time, guaranteeing the privacy of its employees is of paramount importance to NWB Bank. Its small workforce explains NWB Bank's reticence in reporting in detail on diversity. It is possible that detailed reporting could result in the identification of individual employees, which would breach their privacy. Nonetheless, NWB Bank pays close attention to diversity and awareness of it, even if it does not report details.

The Hague, 15 March 2019

Managing Board

Lidwin van Velden
Melchior de Bruijne
Frenk van der Vliet

REPORTING STANDARDS

Global Reporting Initiative

NWB Bank reports on its activities in a transparent way. Where this reporting concerns its specific CSR policy, the bank follows the **Global Reporting Initiative (GRI)** guidelines. This report is based on the GRI standards for 2018 and the bank reports at GRI reporting level 'Core'. The chapter on 'The Sustainable Water Bank' has been audited by EY (see Assurance report on page 79).

NWB Bank's reason for choosing GRI is that it strives to offer excellent international comparability with other institutions, as well as other banks and publicly held enterprises in the Netherlands which apply this framework. For a full overview of relevant substantial criteria and performance indicators, reference is made to the GRI table, which can be found on the **bank's website**.

EU Directive: Disclosure of non-financial and diversity information (reference table)

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

UN Global Compact

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, where possible and relevant, NWB Bank will hold its stakeholders to account 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**.

ICSR Agreement for the banking sector

The bank signed the ICSR Agreement for the banking sector in 2016. Last year NWB Bank added a supplement to its CSR policy in order to affirm its commitment to respecting human rights. That **policy** and the **report** on it can be found on the bank's website. NWB Bank recognises that human rights are universal values and that it has a responsibility as a business to respect them. If and when relevant, the bank pledges to mitigate or – ideally – prevent any adverse human rights impacts on its clients and/or staff. The bank takes this policy into account in both its own office organisation and its lending. The risks for NWB Bank are limited given the public-sector nature of its loan portfolio. In 2018, the Social and Economic Council of the Netherlands (SER) published **the annual report on the ICSR agreement**, including a report on monitoring. The conclusion in it is that all participating parties are on the right path.

Banks' Climate Statement

In the run-up to the Climate Conference in Paris, Dutch banks jointly published the Banks' Climate Statement in November 2015, and presented it to the Dutch government and NGOs involved in climate change activities. The statement, comprising 10 points, includes the Dutch banking sector's ambition to lead the way in combating the effects of climate change. This statement is updated annually with a list of the various initiatives and results. In the **most recent update**, NWB Bank and its Water Bonds are named as the world's front runner in the area of Green Bonds.

DEN BOSCH SEWAGE TREATMENT PLANT: UNIQUE COOPERATION

While renovating its sewage treatment plant in 's-Hertogenbosch, the Aa en Maas Water Authority seized the opportunity to make it completely energy-neutral. It also tries to extract as much biogas as possible from the sludge remaining after purification. This biogas is destined for the 's-Hertogenbosch Heineken Brewery and for the Waste Disposal Service of the municipality of 's-Hertogenbosch. Heineken uses the biogas to heat water for its brewing and packaging processes, while the Waste Disposal Service fuels its refuse trucks with green gas. The biogas is generated in part using the heat from the Waste Disposal Service's biomass plant.

This cooperation between the Water Authority, Heineken and the Waste Disposal Service is a unique and lasting initiative. The Water Authority supplies the equivalent of the average amount of gas consumed by around 3,000 households per year in biogas. Heineken will buy 4.7 million cubic metres of gas annually from 2019. The Waste Disposal Service buys approximately 600,000 m^3 of gas annually, which is enough to power more than 30 clean refuse trucks in and around 's-Hertogenbosch.

Biogas production per year:
- 0.6 million m^3 for use in its own CHP plant
- 4.7 million m^3 for onward supply to Heineken
- 0.6 million m^3 for onward supply to the Waste Disposal Service

CO_2 reduction: 7,781 tonnes of CO_2/year

Source: Aa en Maas Water Authority and 2017 Climate Monitor.

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 Sustainable water bank as part of the report of the Managing Board for the year 2018 of Nederlandse Waterschapsbank N.V. at The Hague (hereafter the chapter Sustainable water bank).
An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the chapter Sustainable water bank 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 2018

in accordance with the reporting criteria as included in the section Reporting criteria.

Basis for our opinion

We have performed our audit on the sustainability information in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), which is a specific Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". Our responsibilities under this standard are further described in the section Our responsibilities for the audit of the chapter Sustainable water bank 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.

Reporting criteria

The chapter Sustainable water bank needs to be read and understood together with the reporting criteria. The Nederlandse Waterschapsbank N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the chapter Sustainable water bank are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) as disclosed in paragraph reporting standards of the annual report.

Limitations to the scope of our audit

The chapter Sustainable water bank includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the chapter Sustainable water bank.

The references to external sources or websites in the chapter Sustainable water bank are not part of the chapter Sustainable water bank as audited by us.
We therefore do not provide assurance on this information.

Responsibilities of the Managing Board and the Supervisory Board for the chapter Sustainable water bank

The Managing Board is responsible for the preparation of the chapter Sustainable water bank in accordance with the reporting criteria as included in the section Reporting criteria, including the identification of stakeholders and the definition of material matters. The choices made by the Managing Board regarding the scope of the chapter Sustainable water bank and the reporting policy are summarized in paragraph reporting standards of the annual report.

The Managing Board is also responsible for such internal control as the Managing Board determines is necessary to enable the preparation of the chapter Sustainable water bank that are free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the reporting process of Nederlandse Waterschapsbank N.V.

Our responsibilities for the audit of the chapter Sustainable water bank

Our responsibility is to plan and perform the audit 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.

We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, 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 relevant 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 assurance standards, ethical requirements and independence requirements.

Our audit included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the chapter Sustainable water bank. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Managing Board.
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the chapter Sustainable water bank, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Identifying and assessing the risks that the chapter Sustainable water bank is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the chapter Sustainable water bank is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures consisted amongst others of:
  - Interviewing management and relevant staff at business level responsible for the CSR-strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the chapter Sustainable water bank;

  - Obtaining assurance information that the chapter Sustainable water bank reconciles with underlying records of the company;
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the chapter Sustainable water bank;
  - Performing an analytical review of the data and trends.
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit.
- Evaluating the overall presentation, structure and content of the chapter Sustainable water bank.
- Considering whether the chapter Sustainable water bank as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

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

The Hague, 15 March 2019

Ernst & Young Accountants LLP

Signed by R.J. Bleijs

4

REPORT OF THE SUPERVISORY BOARD

4. REPORT OF THE SUPERVISORY BOARD

INTERVIEW WITH AGE BAKKER, CHAIR OF THE SUPERVISORY BOARD

"WE ARE ONE OF THE SAFEST AND BEST-CAPITALISED BANKS IN EUROPE."

The past year saw a number of changes related to the Managing Board: Lidwin van Velden was appointed new Chair of the Managing Board, while Melchior de Bruijne and Ard van Eijl were appointed Chief Financial Officer and Chief Risk Officer, respectively. In the past, a single Managing Board member had been responsible for finance and risk. These changes are a good reason to invite Age Bakker, Chair of NWB Bank's Supervisory Board, to say a few words about governance, the supervision of the bank and the role of promotional banks in the Dutch banking industry.

What impact have the changes in the Managing Board had on the organisation and on you as Chair of the Supervisory Board?

"We have long performed well with a Managing Board composed of three members. While that arrangement suited us well, we realised that making the financial and risk sides independent of each other – a change that we have implemented within the organisation and the Supervisory Board – could also be better reflected in the areas of responsibility of the Managing Board. As the composition of the Managing Board was already being reassessed, I understand that the supervisory authority would ask us to consider splitting up the CFRO function. The arrangements that we currently have in place are such that we are able to retain the strengths of our organisation: short lines of communication and a great deal of responsibility given to our employees.

Since the Managing Board team is now back to full strength (through the formation of the Executive Committee), Lidwin as the new Chair has more time to position the bank in the outside world. We need to do so, because not everyone is sufficiently familiar with NWB Bank. The period following Menno Snel's departure was an intensive one, during which there were regular coordination meetings between Lidwin, Frenk and myself as Chair of the Supervisory Board. They both did a superb job of bridging the gap for well over a year and I would like to express my very warm thanks to them for this effort."

At the end of 2017, the bank redefined the strategic framework for the long term. The Executive Committee reviewed the strategy for the medium term during the past year, setting out specific objectives. Which of these objectives enable you most to take your role as Chair of the Supervisory Board and for which subjects has the Supervisory Board laid down challenges for the Executive Committee?

"The Executive Committee is responsible for the strategy and we are primarily a sparring partner to them. As Supervisory Board, we ensure that the strategy is geared towards the bank's stakeholders. The main challenges that we have laid down for the Executive Committee concern identifying the added social value provided by NWB Bank and the way the bank can contribute to making the Netherlands more sustainable. In doing so, we take account of the preconditions; for instance, the bank must remain robust and cost-efficient as well as make a reasonable profit if it is to continue achieving its ambitions."

How important is it that the bank is able to comply with the leverage ratio requirement and what role did the Supervisory Board play in the discussions with the shareholders on this subject?

"NWB Bank is one of the safest and best-capitalised banks in Europe. Since we are a bank that lends only to the Dutch public sector, our risks are low. A one-size-fits-all leverage ratio takes no account of that fact, which we have succeeded in explaining to the national and European regulators. European regulators now have a comprehensive understanding of the business model and the added social value of promotional banks. Under the new capital rules, which take the special character of our bank into account, we are more than capable of complying with the leverage ratio requirement. As a result, the bank is also in a position to start paying dividend again.

A decision was made in 2011 not to pay any dividends while the bank's leverage ratio remained below the minimum requirement of 3% that was announced. That decision was discussed at length with our shareholders, who approved it. At the same time, I am well aware that the water authorities are keen to see dividend being paid again after all these years. We consider it important that the dividend policy does not become a flashing light. In the years ahead, we will try to pay shareholders as stable a dividend as possible. I hope that the dividend that we intend to pay again will make the difference, enabling the water authorities to implement projects that initially did not get off the ground."

What are your views on the position of promotional banks in the Dutch financial landscape?

"Trust in the financial sector has come under pressure in recent years and we all know that trust is hard to gain but easy to lose.
Obviously, the financial sector also has a social role to fulfil. Unlike most major banks, promotional banks do not pursue profit maximisation. They are able to focus on

clients' requirements and help to fund socially desirable investments in public infrastructure at low costs. This way, they perform a unique role in the financial landscape. A diverse landscape, one with large banks, smaller banks and promotional banks, is the most sustainable model. Furthermore, the fact that there is healthy competition between the two promotional banks, NWB Bank and BNG Bank, means that we keep each other on our toes. For every euro that NWB Bank earns, the bank incurs 13 cents in costs and we are keen to keep this ratio at a low level."

The Supervisory Board represents the interests of the water authorities, but it goes without saying that it also promotes those of other shareholders and stakeholders, such as the Ministry of Finance. How can the Ministry act as an additional safeguard for NWB Bank?

"The Ministry of Finance is a valued shareholder. The fact that the Ministry has long had a share in the bank underlines the added social value that the government sees in us. I consider this relationship very helpful. The Ministry is also an excellent consultation partner for the Supervisory Board in its ambitions of contributing to social developments in the area of innovation and sustainability within the Netherlands. We can also brainstorm with the Ministry on the remuneration policy, for example."

What is the European Central Bank's involvement in supervising the bank and which issues has it highlighted to the Supervisory Board?

"We are one of the six banks in the Netherlands that are subject to the direct supervision of the ECB. The ECB initially regarded NWB Bank as the odd man out and it took quite some time to explain how our business model works. Conversely, we also had to become familiar with a European supervisory authority that kept its distance to a certain degree. I have the impression that the ECB now appreciates our business model. At the same time, they observe best practices at other banks in Europe and share that knowledge with us, which has enabled us to bring our internal organisation up to par even more effectively. I am proud that we can still manage with about 70 employees."

With the Supervisory and Managing Boards, you visited the Hollands Noorderkwartier Water Authority on Texel last year. What is your most lasting memory of that visit and to what extent did it contribute to the Supervisory Board's monitoring activities?

"That visit was very inspiring and it was wonderful to see how incredibly proud the water authority officials are of their work, especially on Texel! With the Water Reeve and his staff, we viewed several specific projects implemented with financing provided by the bank. One example is the roughly 20 kilometres of dyke due to be reinforced on the Wadden Sea side of Texel. During our visit, we gained a good idea of how a balance can be found between the different interests at play and how the water authority deals with this question. In close consultation with local residents, farmers, municipalities and the provinces, the construction of a unique dune landscape is under way. That dune landscape is part of a European network of protected nature conservation areas. While it performs the same protective function as the dykes, it also provides added value for nature – a win-win situation.

It is important to shareholders that the Supervisory Board and Executive Committee know and understand the world of the water authorities. For that reason, I took the initiative four years ago to visit one water authority every year. We started with a visit to the water authority in Zeeland, followed by the one in Friesland, then Limburg and now Texel. There are still plenty of other water authorities and other stakeholders that we will visit in the years to come."

SUPERVISION

REPORT ON THE SUPERVISORY BOARD'S SUPERVISORY DUTIES

The Supervisory Board held seven meetings in the reporting period, six of which were regular meetings and one was a strategy session with the Executive Committee.

The Supervisory Board performs its duties in accordance with the Supervisory Board Charter. Prompted by the revised European Banking Authority (EBA) Guidelines on internal governance 2018, which entered into effect on 30 June 2018, an analysis was performed to establish to what extent the bank's operations are in line with these Guidelines. The Supervisory Board Charter was then updated to align it with several specific parts of the Guidelines.

Regular agenda items discussed during the Supervisory Board meetings included financial market developments, relationships with clients, political and economic developments, lending activities and funding, balance sheet developments and developments in the financial result, regulatory changes and developments in the ECB and DNB supervision, risk management, the external auditor's report and strategic policy. In addition to the standard reports and regular items, the Supervisory Board addressed corporate governance, compliance with the Insider Regulations, the dividend and reserve policy, the policy programme, the budget and the profit forecast.

The Executive Committee provided the Supervisory Board with ample and up-to-date information, consulting the Supervisory Board where needed about the policy to be pursued. 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 by the Executive Committee. The Supervisory Board devoted particular attention to the topics mentioned hereafter.

ECB SUPERVISION

The ECB, jointly with the national supervisory authority DNB, supervises NWB Bank through an implementing body, the Joint Supervisory Team (JST). The Chair of the Supervisory Board as well as the Chair of the Audit Committee and the Chair of the Risk Committee had a meeting with the JST in 2018.

The Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) as well as the accompanying Capital Adequacy Statement (CAS) and Liquidity Adequacy Statement (LAS), the SREP assessment, the Recovery Plan update, and the Pillar 2 capital requirement and guidance are regular items of the Supervisory Board's meetings with the Executive Committee. The regular reporting sessions have once again underlined that the bank is highly capitalised.

The JST's findings in respect of the ICAAP process, internal governance, credit risk and IT risk in 2018 were discussed during the Supervisory Board's meetings. The thematic, sector-wide studies were also discussed with the Supervisory Board, including the action plan drawn up by the bank in order to act on the JST's recommendations, resulting from the study conducted in 2017 into the Interest Rate Risk in the Banking Book (IRRBB) framework and a gap analysis in respect of the revised EBA Guidelines for managing the interest rate risk. The results of the sector-wide study into profitability have been discussed as well.

RISK MANAGEMENT

In 2018, as part of the annual assessment of the bank's capital and liquidity adequacy, the Risk Committee and subsequently the Supervisory Board assessed the ICAAP (including CAS) and the ILAAP (including LAS). Based on capital requirement calculations, the ICAAP document examines whether the bank is adequately capitalised. The result is also tested using stress scenarios. The adequacy of the bank's liquidity position and the underlying processes is assessed in the ILAAP document.

The updated Risk Appetite Framework (RAF) (including RAS) for 2018 was also discussed in depth and approved. As part of the RAF, the 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. The risk appetite and the risk profile have largely remained consistently low. The main RAF update relates to the increased attention devoted to substantiating the concentration risk appetite.

As part of the SREP monitoring and evaluation process, NWB Bank updated the recovery plan and submitted it to the ECB/DNB at the end of 2018. The recovery plan sets out the bank's recovery procedure following situations of severe stress. It includes the main stress results relating to the impact on the income statement, capital development and capital ratios, as well as exposures to risk items. In addition, it includes triggers for action and potential escalation to the crisis management team. The changes proposed by the Executive Committee involved adjustments to the recovery indicators and the addition of several supplementary indicators. These indicators were discussed at length during the Risk Committee meeting and a decision was made to set out the significance of the triggers in concrete terms, after which the changes were approved by the Supervisory Board.

DESIGN AND EFFECTIVENESS OF THE BANK'S RISK MANAGEMENT AND INTERNAL RISK CONTROLS

The design and effectiveness of the bank's risk management and its internal risk management and control systems are regularly discussed by the Audit and Risk Committees, based on reports. In addition to the continued attention paid to tightening up the management of financial risks, non-financial risks in the areas of cybercrime and information security have been addressed specifically. In common with the Executive Committee, the Supervisory Board is of the opinion that the risk management and the internal risk management and control systems were effective. The systems provide reasonable assurance that NWB Bank's financial reports contain no material misstatements.

REMUNERATION AND POLICY GOVERNING REMUNERATION OF THE MANAGING BOARD

In early 2018, in accordance with the remuneration policy adopted by the General Meeting, the Supervisory Board adopted the 2013 long-term variable remuneration of the Managing Board members and former Managing Board members, the 2017 variable remuneration of the Managing Board members and their performance contracts for 2018.

RECRUITMENT AND SELECTION

In 2018, the Supervisory Board worked on recruiting and selecting a new Chair of the Managing Board, prompted by the departure of Menno Snel on 25 October 2017.

An executive search agency was hired to find a new Chair of the Managing Board. Following a careful recruitment process, the Supervisory Board concluded that Managing Board member Lidwin van Velden was the best candidate for this position. She had been performing the role of acting Chair of the Managing Board since the end of 2017, alongside her role as CFO/CRO.
Her appointment created a vacancy for a new CFO/CRO on the Managing Board. The Supervisory Board decided to separate the finance and risk executive positions, bringing the allocation of roles within the Managing Board in line with best practices in the banking world. This procedure resulted in the creation of an Executive Committee comprising statutory members: the Chief Executive Officer (CEO), Chief Commercial Officer (CCO) and Chief Financial Officer (CFO) (together: the Managing Board), and a non-statutory member: the Chief Risk Officer (CRO).

Following on from the aforementioned separation of functional areas, the Supervisory Board formed a selection committee that undertook the selection process for a Managing Board member/CFO jointly with an executive search agency. The profile for the position of CFO was prepared by the Supervisory Board in consultation with the Managing Board, the Works Council, the Ministry of Finance and the representative of the shareholder water authorities. As a result of this selection process, the Supervisory Board nominated Melchior de Bruijne for appointment as member of the Managing

Board with effect from 1 December 2018. Melchior de Bruijne had been working for FMO - a publicly held bank based in The Hague just as NWB Bank and BNG Bank - since 2005, where he was Finance director from 2007 to 2015 and Risk & Compliance director from 2015.
He has considerable experience in the area of finance, risk, compliance and IT.
At an Extraordinary General Meeting of Shareholders held on 29 October 2018, Melchior de Bruijne was subsequently appointed CFO for a period of four years, as laid down in Article 14.4 of the bank's Articles of Association and in accordance with the Dutch Corporate Governance Code.

The Managing Board had previously decided to appoint Ard van Eijl as non-statutory member of the Executive Committee/CRO for a period of four years as from 1 November 2018. Ard has over 20 years' experience in the financial sector and has been working for NWB Bank since 2009, the last five years as head of Risk Management.

In addition, the Supervisory Board put effort into recruiting a new Supervisory Board member to succeed Peter Glas, who will step down as Supervisory Board member at the Annual General Meeting (AGM) of 18 April 2019, since he will have served his maximum term of office of eight years. In accordance with Articles 18.2 and 18.3 of the Articles of Association, the shareholder water authorities have a right of recommendation, enabling them to put forward a Supervisory Board member for this position. After the profile had been drawn up, the Supervisory Board set up a selection committee and the shareholder water authorities established a confidential committee. The profile was also shared with the Ministry of Finance as co-shareholder. The committees jointly drew up a long list of potential candidates, after which the selection committee undertook the tasks involved in the further selection process. With respect to the profile, the committees sought to recruit a candidate who has an affinity with the water sector, looking for a candidate both within and outside the water authorities. At the end of November, the Supervisory Board selected Annette Ottolini as the most suitable candidate to fill this vacancy. In addition to her position as Chief Executive Officer of Evides Waterbedrijf, Annette has extensive experience within and an affinity with the water authorities, the drinking water sector and the housing associations. She also has a relevant network in the wider public-private sector. The nomination for Annette Ottolini's appointment is on the agenda of the AGM of 18 April 2019. Once Ms Ottolini has joined, the Supervisory Board will comprise four men and three women. As a result, the bank will meet the minimum requirement of at least 30% men and at least 30% women with regard to the distribution of seats.

HUMAN RESOURCES

The bank installed a Works Council in 2016. In 2018, the Chair of the Supervisory Board and the Chair of the Remuneration and Appointment Committee attended two consultative meetings with the Managing Board and the Works Council together with two Supervisory Board members.

CHARTERS

In early 2019, the Supervisory Board updated the charters of the Supervisory Board, the Audit and Risk Committees, and the Remuneration and Appointment Committee. These adjustments were largely prompted by a further analysis conducted by the bank of the revised EBA Guidelines on internal governance 2018, which entered into effect on 30 June 2018. On 1 June 2018, the Managing Board Charter was also amended in connection with the altered governance model, which resulted in the establishment of an Executive Committee comprising the statutory members, the CEO, CCO and CFO (together: the Managing Board), as well as a non-statutory member, the CRO. NWB Bank is thus operating in accordance with the Dutch Corporate Governance Code as amended in 2017 as well as the EBA's and ECB's guidelines. In a number of areas where there was inconsistency between provisions of the Dutch Corporate Governance Code and the EBA guidelines, the bank opted to apply one of them. The key amendments to the Supervisory Board Charter concern the amendment of several subjects related to the new governance structure and the addition of others that involve stricter application of the EBA Guidelines on internal governance. The amended charters of the Supervisory Board, the Executive Committee, as well as the Audit, Risk, and Remuneration and Appointment Committees are available through NWB Bank's website.

LONG-TERM VALUE CREATION

The Supervisory Board supervises the Executive Committee'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 in decision-making. The Supervisory Board regularly discusses the strategy and the associated risks, taking account of the fact that long-term value creation may impact awareness and anticipation of developments in new technologies, which may require changes 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 other stakeholders.

ACHIEVEMENT OF BUSINESS TARGETS

The policy programme is discussed with the Executive Committee every year. At the end of 2018, the policy targets for 2018 were assessed and those for 2019 adopted. The targets are in line with the medium-term strategy for 2019–2023. The achievement of the bank's business targets is a factor included in the annual assessment of the Executive Committee's performance. The targets included an evaluation of NWB Bank's strategy, retention of its market share in the financing of local authorities or institutions guaranteed by government authorities, retention of the credit ratings equal to that of the Dutch State, achievement of the benchmark return, retention of a highly creditworthy risk profile, continuing to meet the definition of a national promotional bank, having appropriate operational equipment, consolidation of the interest margin and achievement of the CSR objectives. The bank largely achieved its 2018 targets.

STRATEGY

The Executive Committee and the Supervisory Board held the annual strategy session in September. This session focused on the revision of the strategy within the updated strategic framework for the medium term, set at the end of 2017. Subjects discussed included market developments and market positioning, the aspirations and challenges for the various client groups, as well as political and administrative developments. Using specific dilemmas, there was a thorough and substantive discussion where the Supervisory Board performed its role as sounding board extremely well. Specific targets concerning five strategic areas were set out and the conditions necessary to ensure the functioning of the business model were tightened during the revision of the strategy. Setting specific targets for the medium term helps in prioritising and creating focus and transparency. The bank's revised strategy for the medium term (2019–2023) was approved by the Supervisory Board in November 2018. The strategy is explained in more detail on page 27.

FINANCIAL REPORTING

In addition to showing the development of results, lending and funding, the internal quarterly report also focuses specifically 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 Executive Committee's highlights, setting out its views on the bank's financial and non-financial results and the challenges it faces.

RELATIONSHIP WITH SHAREHOLDERS

Two informal consultations took place with NWB Bank's shareholder water authorities in May and December 2018, respectively. The Chair of the Supervisory Board attended both meetings, as did the Chair of the Managing Board. Topics discussed included current developments at the bank relating to results, existing and imminent Managing Board and Supervisory Board vacancies, laws and regulations, and the dividend policy in conjunction with the introduction of the leverage ratio obligation. In addition, there was a separate consultation on the procedure to be followed for Supervisory Board member vacancies subject to a right of recommendation of the shareholder water authorities.

The Supervisory Board held three consultations with the Ministry of Finance's Participating Interests department in 2018. The Chair of the Supervisory Board attended all three consultations, two of which were held in the presence of the Chair of the Remuneration and Appointment Committee and one of which – the pre-AGM consultation – was attended by the Chair of the Audit Committee. The Executive Committee holds an independent quarterly consultation with the Ministry of Finance's Participating Interests department.

CSR

The Supervisory Board considers it important that NWB Bank properly implements 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 issued a Green Bond (Water Bond) for the seventh time. The proceeds from Water Bonds are used to finance Green Bond Eligible Projects by the Dutch water authorities that target climate mitigation, climate adaptation, biodiversity and other objectives.

NWB Bank also issued a third Social Bond (Affordable Housing Bond) in 2018. The proceeds from the Affordable Housing Bond are specifically intended for financing of social housing in the Netherlands. By issuing Green and Social Bonds, NWB Bank emphasises its role as a solid and sustainable financial partner of the Dutch public sector. For a report on NWB Bank's CSR policy, please see the section on 'The Sustainable Water Bank' starting at page 49 of this annual report.

COMMITTEE REPORTS

The Supervisory Board has three committees: the Audit, Risk, and Remuneration and Appointment Committees. In accordance with their own charters, these committees advise the Supervisory Board and prepare its decision-making.

AUDIT COMMITTEE AND RISK COMMITTEE

Since August 2016, the Audit and Risk Committee has been split up into two separate committees, the Audit Committee and the Risk Committee. These committees are composed of the same Supervisory Board members, but with different chairs. In line with the EBA Guidelines on internal governance, the current composition of the Audit and Risk Committees will come to differ by one member on the appointment of the new Supervisory Board member during the 2019 AGM.

The Audit and Risk Committees focus primarily on monitoring and reporting financial developments at the bank, risk management and control, as well as the effectiveness of the bank's risk management and internal risk control systems. The Chairs of the Audit and Risk Committees report directly to the plenary Board using input from meeting reports.

Audit Committee

In the year under review, the Audit Committee met four times, with the Executive Committee, the internal auditor and the external auditor being present. The head of Finance & Control receives regular invitations to Audit Committee meetings. The Audit Committee holds a separate meeting with the internal auditor once a year and has a separate consultation with the external auditor once a year. The Chair of the Audit Committee holds advance meetings both with the internal auditor and with the external auditor ahead of the committee meetings. The Audit Committee operates in accordance with the Audit Committee Charter, which has been tightened up in accordance with the EBA Guidelines on internal governance.

The Audit Committee supports the Supervisory Board by assessing the reliability of the financial reporting process, assessing the structure and effectiveness of risk management and the internal risk management and control systems, as well as assessing the independence of the internal and external auditors, among other things.

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. Attention was also paid to compliance with EBA guidelines (also regarding the revised governance structure and composition of the Supervisory Board's committees), the IT control environment update, hedge accounting, the application of IFRS 9 under Dutch reporting standards, accounting under the new NHG RMBS structure, the introduction of the thin cap rule, the CVA/DVA accounting calculation and the implementation of FINCAD (a new valuation tool for financial instruments).

In dialogue with the Executive Committee, the Audit Committee repeatedly discussed the developments in European regulations with regard to the definition of promotional banks throughout the year under review in order to prepare for the discussion of this subject by the Supervisory Board. These developments are important to NWB Bank, because the calculation of the leverage ratio is heavily dependent on that definition. Within the current regulations, the leverage ratio limits the amount that can be distributed as dividend; if the regulations are amended, NWB Bank will easily meet the minimum requirements for the leverage ratio. The preparation of a dividend policy, the resumption of dividend distributions, the preparation of contingency plans for alternative forms of capital and the status of the discussions on these topics with the ECB were also discussed intensively.

Risk Committee

In the year under review, the Risk Committee met four times, with the Executive Committee, the internal auditor and the external auditor being present. The head of Risk Management receives regular invitations to Risk Committee meetings. Former head of Risk Management Ard van Eijl was appointed CRO on 1 November 2018, which means that, from that date onwards, he attends Risk Committee meetings by virtue of his position as Executive Committee member. The Risk Committee operates in accordance with the Risk Committee Charter, which has been tightened up as per the EBA Guidelines on internal governance.

The Risk Committee supports the Supervisory Board by monitoring the bank's risk profile as well as the structure and effectiveness of NWB Bank's risk management and internal risk management and internal control systems, among other things. Compliance with existing and new local and European laws and regulations including their impact on the bank's organisation, strategy and risk profile were also discussed. The Risk Committee devoted specific attention to operational risk (including an extensive discussion on several new products), reputational risk, credit risk management (including a deeper analysis of debtors/clients, as well as collateral), interest rate risk management and IT risk. Duty of care, compliance (including KYC), the leverage ratio obligation and a gap analysis based on the IRRBB framework were regular topics of discussion. The potential impact of Brexit, including a worst-case Brexit, received particular attention in the past year. Regular subjects discussed by the Risk Committee every year include RAF/RAS, ICAAP/ILAAP (including the ECB's recommendations), various stress scenarios, the SREP outcome, recovery plan update and ECB supervision findings, as well as the reports of the external and internal auditors.

REMUNERATION AND APPOINTMENT COMMITTEE

The Remuneration and Appointment Committee supports the Supervisory Board by assessing the remuneration policy for Managing Board members, senior management and employees, the appointment policy for the Managing and Supervisory Boards, organisational changes and internal succession issues, among other things.

The Remuneration and Appointment Committee met three times in the year under review. The following topics have been discussed: the assessment of the Managing Board, the Managing Board's remuneration, the long-term variable remuneration of the Managing Board for 2014, its variable remuneration for 2017, the proportionality principle pertaining to the remuneration policy, the Managing Board performance contracts for 2018 and the 2017 remuneration report. Training costs, effective collaboration, calling others to account, increasing the workforce and HRM policy were also discussed. Partly in response to questions put by the Supervisory Board, the HRM department set up a Strategic Personnel Planning (SPP) system for NWB Bank. Its purpose is to identify the medium-term and long-term HR requirements (3–5 years) relative to the vision and strategy of NWB Bank as well as external developments.

During 2018, the Remuneration and Appointment Committee and the selection committee set up separately to deal with the vacancy concerned were intensively engaged in recruiting a Chair of the Managing Board and a Managing Board member/CFO, amending the bank's governance structure and recruiting a Supervisory Board member.

With reference to Article 2.1.5 of the Dutch Corporate Governance Code, the Supervisory Board drew up a diversity policy for the composition of the Supervisory Board and the Executive Committee. That policy was merged with guidelines for employees of the bank, discussed in the Remuneration and Appointment Committee's meeting in February 2019 and subsequently approved by the Supervisory Board.

The Chair of the Remuneration and Appointment Committee and the Chair of the Supervisory Board conduct 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 to the plenary Board at a closed meeting.

The Remuneration and Appointment Committee operates in accordance with the Remuneration and Appointment Committee Charter, which was tightened up further in a number of specific areas based on the revised EBA Guidelines on internal governance, which entered into effect on 30 June 2018.

Further details of the bank's remuneration policy are provided in the Remuneration Report on page 102 of this annual report.

INTERNAL ORGANISATION

COMPOSITION OF THE EXECUTIVE COMMITTEE AND SUPERVISORY BOARD

Composition of the Executive Committee

Details of the members of the Executive Committee can be found on pages 13 and 14 of this annual report. The male-female ratio on the statutory members of the Executive Committee (together: the Managing Board) now stands at two thirds to one third, which means that the bank meets the statutory provision in respect of a balanced distribution of seats between men and women 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 jointly assumed his duties for a year. During that period when the Managing Board consisted of two Managing Board members, the Chair of the Supervisory Board held regular coordination meetings with Managing Board members, while the Chairs of the Audit and Risk Committees also regularly consulted the Chair of the Managing Board. Following a careful recruitment process, the Supervisory Board selected the current Managing Board member and acting Chair Lidwin van Velden as prospective Chair. She was awarded the title of Chair of the Managing Board at the AGM held on 19 April 2018.

Lidwin van Velden's appointment as Chair of the Managing Board created a vacancy for a new Managing Board member as CFO/CRO. The Supervisory Board decided to split up the finance and risk executive positions, which resulted in an amendment of the governance structure of NWB Bank's Managing Board. The new governance structure entailed the formation of an Executive Committee comprising the statutory members (the CEO, CCO and CFO (together: the Managing Board)) and a non-statutory member (the CRO).

The Supervisory Board nominated Melchior de Bruijne, formerly Risk & Compliance director and Finance director with FMO, for appointment as statutory member of the Executive Committee/CFO with effect from 1 December 2018. At an Extraordinary General Meeting held on 29 October 2018, the shareholders approved his appointment.
The Managing Board also appointed Ard van Eijl, head of Risk Management at the bank, as non-statutory member of the Executive Committee/CRO on 1 November 2018.

All vacancies within the new governance structure were consequently filled.

Composition of the Supervisory Board – details

Details of the members of the Supervisory Board can be found on pages 16 to 19 of this annual report.

Composition of the Supervisory Board – profiles, competencies and diversity

In accordance with the rotation schedule, the composition of the Supervisory Board did not change in 2018. The Supervisory Board comprises seven members, of whom five are men and two women.
Peter Glas will step down as member of the Supervisory Board and Chair of the Remuneration and Appointment Committee at the AGM to be held on 18 April 2019.
With the proposed appointment of Annette Ottolini as Peter Glas's successor, the Supervisory Board will be composed of four men and three women, establishing the ratio of men to women at 57% to 43%, which meets the statutory requirement of at least 30% men and at least 30% women.

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 required competencies within the Supervisory Board, as well as the desirable diversity, expertise and background of the Supervisory Board members. They must be aware of and able to assess national and international social, economic, political and other developments of relevance to NWB Bank.

An overall profile has been drawn up to provide guidance on the composition of the Supervisory Board and the

AREAS OF EXPERTISE WITHIN THE SUPERVISORY BOARD

AREAS OF EXPERTISE	Age Bakker	Maurice Oostendorp	Peter Glas	Petra van Hoeken	Toon van der Klugt	Frida van den Maagdenberg	Manfred Schepers
Banking industry/financial markets	X	X		X			X
Finance/accountancy/risk management		X		X		X	X
Regulations	X	X		X			X
ICT/cybersecurity				X	X	X	
HRM/remuneration policy			X		X	X	
Corporate governance	X	X		X			
Socio-political environment	X		X				X
Water authorities/semi-public sector			X		X	X	
Corporate responsibility			X	X	X		X
Business operations/outsourcing		X			X	X	
Communication	X		X				

appointment of its members. This general profile was updated and approved by the Supervisory Board in early 2019. 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 extensive knowledge of finance and ICT. Annette Ottolini, who is due to be appointed at the AGM to be held on 18 April 2019, will bring with her knowledge of ICT and general experience with administration in both the semi-public sector and the commercial sector. 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. The Supervisory Board members cover the relevant areas of expertise in a balanced way (see the overview of 'Areas of expertise within the 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. Following the proposed appointment of Annette Ottolini in April 2019, the Supervisory Board will rearrange the composition of the committees. The current members of the Audit Committee are Maurice Oostendorp (Chair), Age Bakker, Petra van Hoeken and Manfred Schepers. The Risk Committee comprises the same members, with Petra van Hoeken as Chair.

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 has been 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 responsible for HRM attends the Committee's meetings.

The composition of this committee will also be rearranged once the new Supervisory Board member is appointed at the AGM to be held on 18 April 2019.

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. The most recent assessment under the supervision of an independent expert was performed in 2015. Therefore, the Supervisory Board evaluated its own performance under the supervision of an independent expert in 2018. As in previous years, the Supervisory Board evaluated its own performance by means of an online evaluation tool, which Supervisory Board members and Executive Committee members had completed prior to the assessment session.

To prepare for the self-assessment session, the external independent expert conducted individual interviews with the Chairs of the Supervisory Board and the Executive Committee. The self-assessment session was divided into a closed part involving only Supervisory Board members and a plenary part that included the four Executive Committee members. The Supervisory Board members provided each other with feedback in an open atmosphere during the closed part of the session. In addition, based on the self-assessment report and the interviews, a number of discussion points were drawn up and addressed during the self-assessment process.

It is clear from the report on the self-assessment session that it took place in an open atmosphere. The Supervisory Board members gave each other scope to express and argue their opinions. The conclusion produced by the self-assessment session is that the Supervisory Board is functioning effectively. The Supervisory Board has undertaken to discuss the realisation of the strategy at more frequent intervals and to take time for an in-depth discussion about matters that fall outside day-to-day affairs. The Supervisory Board also intends to consider in greater depth the ways of obtaining more feeling with the culture of the organisation and for the new dynamic in the management of the bank, the latter in the light of the change in the Managing Board's structure. Finally, the Supervisory Board is considering alignment with the amended assessment system used by the bank, which enables more input to be obtained from the organisation. The committees evaluated themselves separately. The results are as follows:

The **Audit Committee** is functioning effectively, with the agenda largely determined by standard topics that need to be addressed according to a fixed schedule. The reports are of a high calibre and result in the required dialogue, while the level of involvement of the internal and external auditors is also rated as good. The overlap in the composition of the Audit and Risk Committees is regarded as desirable, given the common aspects of the subjects dealt with by the two committees. However, it is important to remain aware of subjects that might overlap with those handled by the Risk Committee.

The **Risk Committee** has also been evaluated to function effectively, being composed of members who bring along experience and expertise. In recent years, the agenda has increasingly been composed explicitly and developments pertaining to the bank's risk management are monitored carefully by the Committee, which provides advice with due regard for its supervisory role. A substantive separation of subjects from those dealt with by the Audit Committee remains an area requiring attention for this Committee as well. The feedback provided during meetings of the Supervisory Board is perceived as good.

The Supervisory Board assessed the **Remuneration and Appointment Committee's** functioning as good. The complexity of governance and the sensitivity of the subjects call for a high degree of prudence. The Supervisory Board's role as an employer with regard to the Managing Board on the one hand and its more supervisory and advisory role in respect of the organisation and HR policy on the other are properly separated.

Recent years have been very busy, owing to the various vacancies that have had to be filled. The standard presence of the head of HRM at the start of the meetings means that HRM-related themes are explained well.

LIFELONG LEARNING

Within the context of the lifelong learning programmes for the Managing and Supervisory Board members, various presentations were held by external experts in 2018. The topics addressed in 2018 included social housing and the revised Payments Services Directive (PSD2). The Audit Committee saw a presentation on the potential impact of IFRS 9/ECL under NL GAAP, while the Risk Committee attended a presentation that zoomed in on the consequences of Brexit in relation to the conclusion of new clearing transactions as from 30 March 2019.

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 introduction programme covering general financial, organisational and legal matters, financial reporting, risk management, 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 Executive Committee. As a banking institution, NWB Bank adheres to the EBA Guidelines. The Supervisory Board believes that it meets the obligation in the EBA Guidelines on internal governance under Article 32 of Directive 2013/36/EU (with a cross-reference to Section 9.3 of the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders) on a sufficient number of independent Supervisory Board members. Moreover, it is of the opinion that best practice provisions 2.1.7 to 2.1.9 of the Dutch Corporate Governance Code have been complied with. In this context, it should be noted that, during 2018, one Supervisory Board member, Petra van Hoeken, was involved in a banking institution 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 the area of independence. 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, where relevant, the Supervisory Board requests information from NWB Bank's external auditor. The Supervisory Board engaged external agencies in 2018 to recruit a new Chair of the Managing Board, a new Managing Board member and a new Supervisory Board member. 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 Executive Committee have informed NWB Bank of all other relevant positions they hold. Where a potential conflict of interest could arise because of a Supervisory Board member's principal position, the member in question will not participate in the relevant discussions and decision-making processes. It should be noted that no individual transactions are discussed during Supervisory Board meetings. No transactions where potential conflicts of interest could have arisen took place during the past year.

INTERNAL AUDITOR

The head of the internal audit department (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 attended all Audit Committee and 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 2017, external auditor EY audited NWB Bank's 2018 financial statements.

OTHER MATTERS

REAPPOINTMENT/APPOINTMENT OF MANAGING AND SUPERVISORY BOARD MEMBERS

The appointment of Lidwin van Velden as Chair of the Managing Board was approved by the General Meeting during the AGM held on 19 April 2018. Melchior de Bruijne was appointed as Managing Board member/CFO for a period of four years at the Extraordinary General Meeting held on 29 October 2018.

The appointment of Annette Ottolini will be on the agenda of the AGM to be held on 18 April 2019. She will succeed Peter Glas as a Supervisory Board member with a seat subject to a right of recommendation of the shareholder water authorities. The reappointments of Managing Board member Frenk van der Vliet and Supervisory Board member Petra van Hoeken are also on the agenda of that AGM.

ATTENDANCE FIGURES FOR SUPERVISORY BOARD MEETINGS, INCLUDING COMMITTEE MEETINGS, IN 2018

	Age Bakker	Maurice Oostendorp	Peter Glas	Petra van Hoeken	Frida van den Maagdenberg	Manfred Schepers	Toon van der Klugt
Supervisory Board	7 out of 7	7 out of 7	7 out of 7	7 out of 7	7 out of 7	6 out of 7	6 out of 7
Audit Committee	4 out of 4	4 out of 4	N/A	3 out of 4	N/A	4 out of 4	N/A
Risk Committee	4 out of 4	4 out of 4	N/A	3 out of 4	N/A	4 out of 4	N/A
Remuneration and Appointment Committee	3 out of 3	N/A	3 out of 3	N/A	3 out of 3	N/A	2 out of 3
Attendance rate	100%	100%	100%	86.7%	100%	93.3%	80.0%

ATTENDANCE

The Supervisory Board met seven times in 2018 for plenary meetings. Almost every meeting was attended by all Supervisory Board members, resulting in an overall attendance rate (including the committee meetings) of 94%. The availability of Supervisory Board members for interim consultation was good. Absence remained limited to unexpected personal circumstances. The Executive Committee members are regular attendees of Supervisory Board meetings. The first part of each Supervisory Board meeting is a closed session. In 2018, two informal meetings took place in the absence of the Executive Committee: one on the assessment of Managing Board members and a closed meeting on the self-assessment of the Supervisory Board. The Supervisory Board also had separate discussions with the internal and external auditors.

In addition to the meetings mentioned above, the Chair of the Supervisory Board also held regular coordination meetings with the Managing Board during the period in which it temporarily comprised two persons. In total, fifteen such meetings took place in 2018.

A WORD OF THANKS

The Supervisory Board wishes to express its appreciation for the excellent way in which Lidwin van Velden and Frenk van der Vliet have performed their duties for one year in which the third Managing Board position was vacant. The Supervisory Board wishes to thank all the employees and the members of the Executive Committee for their dedicated efforts, and expresses its appreciation for the results achieved.

The Hague, 15 March 2019

Supervisory Board

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

5

REMUNERATION REPORT 2018

5. REMUNERATION REPORT 2018

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.

MANAGING BOARD REMUNERATION POLICY

The remuneration policy applies to the statutory members of the Executive Committee (together: the Managing Board).

FIXED REMUNERATION

The remuneration policy for the Managing Board was most recently amended and adopted by the General Meeting of Shareholders on 14 September 2015. The policy – which applies to the Managing Board members appointed on or after 14 September 2015 – stipulates a maximum salary of €272,000, including the variable component, for the Chair and a maximum of 85% of that amount for the other members of the Managing Board. The maximum salary for the Chair was the result of a 5% reduction of the maximum total (fixed and variable) remuneration compared with the total maximum remuneration for the Chair applicable at that time.
The bank opted for a ratio of 85% 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. A shareholders' committee, which will review the remuneration policy will therefore be formed in the first half of 2019. The results of that review will be an agenda item for the Annual General Meeting (AGM) in 2020.

VARIABLE REMUNERATION

The variable remuneration of Managing Board members equals no more than 15% of their fixed remuneration and therefore remains below the 20% bonus cap laid down in the Financial Undertakings (Remuneration Policy) Act (Wbfo). The variable remuneration is based on the relevant performance of the members of the Managing Board, 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 variable remuneration of the Managing Board members.
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 and benchmark return (in line with the annual budget) – a maximum of 3%
- risk management (in line with internal and external sets of standards) – a maximum of 3%
- implementation of strategy and policy – a maximum of 7%
- personal targets – a maximum of 2%

The long-term categories are as follows:

- further diversification of lending within the Strategic Framework
- continuing to meet the definition of a national promotional bank (with a credit portfolio comprising no more than 10% of non-promotional assets)
- Standard & Poor's and Moody's ratings for the bank must equal the sovereign rating for the State of the Netherlands

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.

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 members of the Managing Board 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 2018, the cap was €105,075. 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 members of the Managing Board. Otherwise, the terms and conditions of employment for the Managing Board are the same as those for the bank's other employees.

MANAGING BOARD REMUNERATION IN 2018

FIXED REMUNERATION

Lidwin van Velden, who was appointed to the Managing Board on 1 January 2010 and has been its Chair since 19 April 2018, has been subject to the remuneration policy established in 2015 since 19 April 2018. Melchior de Bruijne, who was appointed as member of the Managing Board on 1 December 2018, is also subject to this policy. Under this policy, a maximum salary of €272,000, including the variable component (after indexation: €278,000 from 1 January 2018) applies to the Chair and a maximum of 85% of that amount applies to the other members of the Managing Board (after indexation: €238,136 from 1 January 2018). Frenk van der Vliet, who has been employed as a Managing Board member since 1 January 2012, is subject to the remuneration policy applicable prior to 2015. Under this old policy, a maximum total (fixed and variable) remuneration of €280,000 applies to the Chair and a maximum of 85% of that amount applies to the other members of the Managing Board (after indexation: €249,506 from 1 January 2018). Indexation of 1.5%, equal to the structural salary adjustments laid down in the CLA, took place in 2018.

VARIABLE REMUNERATION

In February 2019, the Remuneration and Appointment Committee assessed the actual performance of the members of the Managing Board 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 Chair as from 25 October 2017. When Lidwin van Velden was awarded the title of Chair at the AGM on 19 April 2018, she took up the CFRO duties until the appointment of the CRO as non-statutory member of the Executive Committee on 1 November 2018 and the appointment of the CFO on 1 December 2018. The Remuneration and Appointment Committee also took note of the vision of the members of the Managing Board in relation to the amount and structure of their remuneration when preparing the proposal for the award of variable remuneration. The conclusion is that the members of the Managing Board agree to the remuneration policy set out by the Supervisory Board members and adopted by the shareholders. The Remuneration and Appointment Committee subsequently submitted a proposal to the Supervisory Board concerning the variable remuneration of the individual members of the Managing Board.

Performance assessment of the members of the Managing Board

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

The above assessment resulted in 15% variable remuneration being awarded to Lidwin van Velden and Frenk van der Vliet. 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.
No variable remuneration for 2018 is applicable to Melchior de Bruijne owing to his recent commencement of employment on 1 December 2018.

REMUNERATION OF THE MEMBERS OF THE MANAGING BOARD

				Pension		
(in thousands of euros)	Fixed remuneration	Variable remuneration	Payment of the deferred component of the 2015 variable remuneration	Contri-bution	Compensation in connection with the harmonisation of the pension plan	Employer's contribution for the net pension plan
2018						
Lidwin van Velden	235	24	9	36	8	24
Frenk van der Vliet	217	22	9	34	10	20
Melchior de Bruijne[1)]	17	N/A	N/A	2	N/A	1
Total	**469**	**46**	**18**	**72**	**18**	**45**

1) Joined NWB Bank on 1 December 2018.

As in previous years, Ron Walkier, Chair of the Managing Board until April 2016, waived his variable remuneration (this time the deferred component of the 2015 variable remuneration), given the suspension of dividend distributions in 2015.

				Pension		
(in thousands of euros)	Fixed remuneration	Variable remuneration	Payment of the deferred component of the 2014 variable remuneration	Contri-bution	Compensation in connection with the harmonisation of the pension plan	Employer's contribution for the net pension plan
2017						
Lidwin van Velden	214	21	10	35	7	22
Frenk van der Vliet	214	21	9	34	10	18
Menno Snel[2)]	193	N/A	N/A	25	N/A	16
Total	**621**	**42**	**19**	**94**	**17**	**56**

2) Retired from office on 25 October 2017 owing to his having been appointed State Secretary for Finance. He has received no variable remuneration owing to his early departure.

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

DEFERRED COMPONENT OF 2015 VARIABLE REMUNERATION

In February 2019, the Remuneration and Appointment Committee compared NWB Bank's actual results with the long-term targets formulated in 2015 (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). This comparison showed that these long-term targets have been fully achieved: the bank's ratings have remained equal to those of the State of the Netherlands, while the Remuneration and Appointment Committee has assessed the development of market shares in the period from 2014 to 2018. On the proposal of the Remuneration and Appointment Committee, the Supervisory Board decided to release the deferred component (see the breakdown of Remuneration of the members of the Managing Board). As stated earlier, Ron Walkier, as former Chair of the Managing Board, waived the deferred component of his 2015 variable remuneration given the suspension of dividend distributions in 2015.

EMPLOYEE REMUNERATION POLICY

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.

Effective 1 January 2018, the bank abolished the variable remuneration schemes for employees (profit-sharing and bonus payment plans). This is in line with the profile of a promotional bank and the public debate about the 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 the employees - and of the members of the Managing Board – 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 members of the Managing Board and employees, to which a members' own contribution applies. The bank offers a net pension plan for salaries exceeding €100,000 (as from 2018: €105,075).

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 disability insurance. Employees whose positions justify participation in the car scheme may do so or claim reimbursement under the scheme.

ANNUAL TOTAL COMPENSATION RATIO

The bank determines the pay ratio between the CEO and the other employees on the basis of the Global Reporting Initiative (GRI) Standard disclosure '102-38'. 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. The total remuneration comprises the fixed and variable remuneration and current service costs.

The fixed remuneration of the employees in 2018 comprises 12 monthly salaries (reference date: 31 December 2018), 8% holiday allowance and a 13th month's salary payment. Employees will also receive an allowance of 10.745% in connection with the abolition of the variable remuneration. In 2018, the members of the Managing Board received variable remuneration comprising the short-term variable remuneration for 2014 and long-term variable remuneration for 2017. The service costs consist of the components 'average pay costs up to €105,075 minus the employer's contribution', 'the employer's contribution above €105,075 minus the employee's contribution' and 'compensation for the old pension plan (prior to 2015), where applicable'.

Based on the above principles, the pay ratio between the CEO and the median of NWB Bank's other employees is 4.4 for 2018 (2017: 4.1). This is a low ratio compared with that at other financial institutions.

SUPERVISORY BOARD REMUNERATION

Effective 1 January 2017, the following remuneration structure (excluding VAT) applies to Supervisory Board members, with the amounts being subject to indexation in line with the structural salary adjustments laid down in the CLA:

(in thousands of euros)	2018	2017
Chair + committees	37	37
Deputy Chair + Audit Committee + Risk Committee	23	23
Member + Audit Committee + Risk Committee	23	23
Member + Remuneration and Appointment Committee	23	23

These amounts include expense reimbursements.

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 thousands of euros)	2018	2017
Age Bakker [1][2][3]	37	37
Maurice Oostendorp [2][4]	23	23
Peter Glas [3]	23	23
Petra van Hoeken [2]	23	23
Toon van der Klugt [3][5]	23	11
Frida van den Maagdenberg [3][6]	23	16
Manfred Schepers [2]	23	23
Albertine van Vliet-Kuiper [7]	-	8
Total	**175**	162

1) Chair
2) Member of the Audit Committee and Risk Committee
3) Member of the Remuneration and Appointment Committee
4) Deputy Chair
5) Toon van der Klugt was appointed Supervisory Board member on 17 August 2017
6) 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 Board of Directors.
7) Albertine van Vliet stepped down on 20 April 2017

The above amounts exclude travel expense allowances and VAT.

In the period following Menno Snel's departure from office on 25 October 2017, during which two Managing Board members temporarily constituted the Managing Board, Age Bakker as Chair of the Supervisory Board had regular coordination meetings with the Managing Board members. He received an attendance fee of €750 (excluding VAT) for each coordination meeting.


Boxmeer
Tot Ziens
ZONE
60

6

CORPORATE GOVERNANCE

6. 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 strong financial position, while practising transparency in its governance and taking account of the interests of all stakeholders. Taking account of the bank's specific character, 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 Board and Executive Committee bear responsibility for NWB Bank's effective corporate governance structure and for ensuring compliance with the governance principles. The bank's Executive Committee comprises statutory members (together: the Managing Board) and a non-statutory member.

DUTCH CORPORATE GOVERNANCE CODE

The Dutch Corporate Governance Code was revised at the end of 2016, and contains principles and best practice provisions that govern the relationships between the Executive Committee, 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 is applicable to Dutch companies whose shares are listed on the stock exchange. 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 Deelnemingenbeleid Rijksoverheid). 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 and Supervisory Board members should be present during the Annual General Meeting (AGM) 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 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 AGM have not been formalised either. Given the relatively modest level of variable remuneration, no scenario analyses were performed. Finally, the bank opted to use the criteria under the EBA Guidelines in respect of the independence of Executive Committee and Supervisory Board members.

In 2018, the Supervisory Board decided to separate the finance and risk executive positions, which resulted in a change to the governance structure of NWB Bank's Managing Board. The new governance structure entailed the formation of an Executive Committee comprising the statutory members, the CEO, CCO and CFO (together: the Managing Board), as well as the non-statutory member, the CRO. As a result, the bank is joining the increasing number of businesses in the Netherlands that form an Executive Committee comprising statutory members and non-statutory members.

In early 2019, the Supervisory Board updated the charters of the Supervisory Board, the Audit and Risk Committees, and the Remuneration and Appointment Committee. These changes were largely prompted by an analysis conducted by the bank of the revised EBA Guidelines on internal governance 2018, which entered into effect on 30 June 2018. The general Supervisory Board profile was also amended in accordance with the aforementioned EBA Guidelines. The main change in the profile relates to the alignment with the EBA Guidelines for independence. Within that context, the Supervisory Board determined that both the Board and its committees are composed such that they include sufficient independent members.

In mid-2018, the Managing Board's charter was amended as well in connection with the changed governance model, resulting in the formation of an Executive Committee, as described before.

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 Executive Committee 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 purpose of the Code is 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 external advisers who have worked for the bank for more than three months 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 2018 reporting period compared with 2017.

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 Works Council and a Managing Board member in 2018. 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, together with two Supervisory Board members, attended a consultative meeting between the Managing Board and the Works Council.

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 Executive Committee promotes responsible conduct and a healthy workplace culture. In 2018, the Executive Committee defined two important focus areas for HRM policy in the years ahead; an 'outward-looking focus' and 'effectively calling others to account'. These focus areas emerged as the result of a study into soft controls. They are reflected in the spearheads set out by the bank in its HRM policy and contribute to the achievement of its objectives.

NWB Bank's culture is characterised by professionalism, engagement and openness. Matters that received attention in 2018 included knowledge transfer through 'brown bag sessions', which were organised by the NWB Young Professionals. Those sessions involve an employee or a guest speaker giving a presentation on a topical and interesting subject. There was one artificial intelligence-related event and another brown bag session that dealt with diversity.

In the context of conduct and culture, employees are encouraged to obtain frequent 360-degree feedback in order to assist them with their personal development and provide them with 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 or services. This way, the bank increases its social engagement as a promotional bank. As a cost-conscious enterprise, NWB Bank uses its AAA/Aaa ratings to raise funds for the financing of 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 in 2017 concerning the establishment of a new 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.
In addition, NWB Bank has signed an agreement with BNG Bank and the Ministry of Finance in order to broaden options in respect of long-term export financing by opening a CIRR (Commercial Interest Reference Rate) desk. The bank is also focusing actively on providing long-term financing for projects involving improvements in sustainability and energy transition.

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. Its approach centres on bridging the knowledge gap between the public sector and the financial world. To bridge the knowledge gap, the bank organises educational client events, daily newsletters are issued, interest rates are monitored weekly, employees participate in seminars as speakers and client visits are made to individual clients.

COMPLIANCE AND INTEGRITY

In 2018, the compliance function was separated from the legal department and reports directly to the Chair of the Managing Board in the current set-up. 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 internal audit department (iad) carries out compliance audits to assess not only whether the bank complies with the relevant laws and regulations as well as the 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 Executive Committee and shareholders.

COMMITTEES

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

Audit Committee

The Audit Committee focuses on preparing the factual ground for the decisions to be taken by the Supervisory Board in respect of several topics including the design and functioning of the internal financial control systems, the financial information provided by NWB Bank, assessments of compliance with all relevant laws and regulations relating to financial reporting, the role and functioning of the internal auditor, preparations for the discussion of the annual report and accounts, the external auditor's audit report and the half-year figures, the relationship with the external auditor (including, in particular, its independence, remuneration and any non-audit work for NWB Bank), the financing of the company and information and communication technology applications.

The Audit Committee operates in accordance with the Audit Committee Charter. It holds a meeting at least four times a year. It also holds a meeting with the external auditor at least once a year and consults the internal auditor at least once a year, both without the Executive Committee being present.

Risk Committee

Like the Audit Committee, the Risk Committee's remit is to prepare the factual ground for the decisions to be made by the Supervisory Board and advise on, among others, risk management and risk policy, taking account not only of market, credit and liquidity risks but also of system, reputational and non-financial risks, as well as the design and functioning of the internal risk management and control systems, risk tolerance and risk profile, monitoring compliance with the relevant laws and regulations and monitoring risk reports, assessing (at a strategic level) whether capital allocation and liquidity requirements are generally in line with the approved risk tolerance level as well as whether the business activities are in general commensurate with the bank's risk tolerance level and the recovery plan.

The Risk Committee operates in accordance with the Risk Committee Charter. It holds a meeting at least four times a year. It also holds a meeting with the external auditor at least once a year and consults the internal auditor at least once a year, both without the Executive Committee being present.

Remuneration and Appointment Committee

The Remuneration and Appointment Committee's remit includes putting forward proposals to the Supervisory Board regarding the preparation of appointment procedures for Supervisory Board members and Managing Board members, periodically assessing the individual performance of the members of the Supervisory Board and the Managing Board members, monitoring the bank's 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. This general profile was updated and approved by the Supervisory Board in early 2019.

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.

During the past reporting year, the Supervisory Board drew up a diversity policy for the composition of the Supervisory Board and the Executive Committee. This policy was approved by the Supervisory Board in early 2019.

The commitment to diversity in the composition of the boards has brought the general profile into line with the Articles of Association and the requirements under the Dutch Corporate Governance Code, the Dutch Banking Code, the Capital Requirements Directive, the EBA Guide to fit and proper assessment, and the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, among other things.

The Supervisory Board comprises seven members, of whom five are men and two women. With the proposed appointment of Annette Ottolini as Peter Glas's successor, the Supervisory Board will be composed of four men and three women, making the ratio of men to women 57%/43%, which meets the statutory provision of at least 30% male and at least 30% female members.

EXECUTIVE COMMITTEE

NWB Bank is managed by the Executive Committee. The General Meeting of Shareholders appoints statutory members of the Executive Committee (the Managing Board), nominated by the Supervisory Board, for a four-year period. As stated before, the Managing Board governance structure was changed into an Executive Committee in 2018. It comprises four members, namely the statutory members, the CEO, CCO and CFO (together: the Managing Board), and the CRO as a non-statutory member. The portfolio of operations for which the members of the Executive Committee are responsible are stated on the website and on pages 13 and 14 of this annual report.

As stated before, the Supervisory Board has drawn up a diversity policy, which contains guidelines for the composition of both the Supervisory Board and the Executive Committee.

The male-female ratio on the Managing Board pursuant to the articles of association now stands at two thirds to one third, which means that the bank meets the statutory provision in respect of a balanced male-female ratio of least 30% men and at least 30% women.
An individual profile is drawn up for each vacancy that arises on the Executive Committee. Details specified in such profiles include expertise and competences. As far as expertise is concerned, each Executive Committee 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.

The changed governance structure means that the Executive Committee's procedures were set out within the Executive Committee Charter in 2018. The Charter contains rules relating to the division of the Executive Committee's duties, its working methods and its decision-making process. It also contains provisions governing conduct and culture, the Executive Committee's dealings with and its method of providing information to the Supervisory Board, the Managing Board's remuneration policy and conflicts of interest.

LIFELONG LEARNING

NWB Bank considers lifelong learning to be vital. Against this background, presentations were held by external experts in 2018 for the Supervisory Board and Executive Committee members. The topics addressed in 2018 included social housing and the revised Payments Services Directive (PSD2).

The Audit Committee saw a presentation on the potential impact of IFRS 9/ECL under NL GAAP, while the Risk Committee attended a presentation which zoomed in on the consequences of a hard Brexit in relation to the concluding of new clearing transactions as from 30 March 2019.

In addition, the Executive Committee members attended various training programmes and/or sessions in 2018 devoted to Security Awareness, Renewable Energy, the International Program for Financial Institutions Executives (IE Business School, Madrid) and Impact Investments, among other things.

Future new members of the Supervisory Board and Executive Committee must participate in an introduction programme addressing bank-specific lending and funding topics, financial aspects including the supervisory frameworks, risk management topics, compliance, integrity and IT infrastructure, among other things.

INTERNAL AUDIT

NWB Bank has assigned the internal audit function to its internal audit department. The iad independently, carefully, expertly and objectively audits and tests the internal management of the risks associated with the bank's business activities. The iad operates in accordance with the applicable professional regulations and rules of conduct of the Royal Netherlands Institute of Chartered Accountants and the Dutch Institute of Internal Auditors, which have been developed into an internal quality assurance system.

The head of the iad reports primarily to the Chair of the Managing Board and also has a reporting line to the Chair of the Audit Committee. The head of the iad attends the meetings of the Audit and Risk Committees. In 2018, 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 Executive Committee's request, the head of the iad may participate as a non-voting member in steering committees on strategically important projects. In the process, the iad establishes whether relevant assertions and achievements cited in the Report of the Managing Board section on 'The Sustainable Water Bank' 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 the Managing Board members and employees is in line with national and international rules and regulations. The remuneration policy for employees was approved by the Supervisory Board and is reviewed every two years by the Remuneration and Appointment Committee. In 2018, the remuneration policy for employees was evaluated by the Managing Board and Supervisory Board, and a decision was made to convert the variable remuneration for employees into fixed remuneration, partly due to the public debate on the subject and the fact that NWB Bank is a promotional bank.

The remuneration policy for the Managing Board is reviewed every five years by the AGM. In early 2019, a shareholders' committee yet to be established will consider the remuneration policy for the Managing Board. The evaluation is an agenda item for the 2020 AGM. Further details of the remuneration policy are 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 their 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 2019

Managing Board

Lidwin van Velden
Melchior de Bruijne
Frenk van der Vliet

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STATEMENT OF INCOME

for the year ended 31 December 2018

(in millions of euros)	Notes	2018	2017
Interest and similar income		1,567	1,615
Interest and similar expenses		1,333	1,339
Net interest income	1	**234**	276
Results from financial transactions	2	-48	-58
Other operating income		0	0
Total operating income		**186**	218
Employee benefits expense	3	10	8
Other administrative expenses	4	10	10
Employee benefits expense and other administrative expenses		**20**	18
Depreciation, amortisation and value adjustments of tangible and intangible assets	5	2	2
Bank tax and resolution levy	6	27	28
Total operating expenses		**49**	48
Profit from ordinary operations before tax		137	170
Tax on profit from ordinary operations	7	37	47
Net profit		**100**	123

BALANCE SHEET

as at 31 December 2018, before profit appropriation

(in millions of euros)	Notes	2018	2017
Assets			
Cash, cash equivalents and deposits at the Central Bank	8	10,237	9,638
Banks	9	4,590	8,755
Loans and receivables	10	61,405	60,973
Interest-bearing securities	11	3,291	3,697
Intangible assets	12	3	2
Tangible assets	13	5	6
Income tax	21	8	0
Other assets	14	4	0
Derivative assets	15	4,163	4,048
Prepayments	16	9	4
Total assets		**83,715**	**87,123**
Liabilities			
Banks	17	1,523	1,154
Funds entrusted	18	6,528	6,107
Debt securities	19	66,300	66,418
Provisions	20	27	32
Income tax	21	-	-
Other liabilities	22	30	55
Derivative liabilities	23	7,252	11,402
Accruals	24	3	0
		81,663	**85,168**
Subordinated debt	25	326	327
Paid-up and called-up share capital	26	7	7
Revaluation reserves	27	1	4
Other reserves	28	1,618	1,494
Unappropriated profit for the year	29	100	123
Equity		1,726	1,628
Total liabilities		**83,715**	**87,123**
Irrevocable commitments	30	3,759	4,078
Contingent liabilities	31	-	41

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

(in millions of euros)	Notes	2018	2017
Net changes in the revaluation reserves	27	-3	1
Net changes in other reserves	28	1	-3
Income tax on income and expenses recognised directly in equity		-1	0
Income and expenses recognised directly in equity		-3	-2
Net profit		100	123
Comprehensive income		**97**	**121**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

(in millions of euros)	Paid-up share capital	Revaluation reserves	Other reserves	Unappropriated profit for the year	Total
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**
As at 1 January 2018	**7**	**4**	**1,494**	**123**	**1,628**
Profit appropriation of previous year			123	-123	-
Dividend			-		-
Direct change in the value of equity		-3	1		-2
Profit for the year				100	100
As at 31 December 2018	**7**	**1**	**1,618**	**100**	**1,726**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

(in millions of euros)		2018	2017
Profit before income tax		137	170
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		43	-14
Change in bank loans and receivables not available on demand	9,17	4,527	218
Change in public sector loans and receivables	10	96	779
Change in funds entrusted	18	424	46
Change in other assets and liabilities		-3,798	-3,231
Net cash flow used in operating/banking activities		**1,431**	**-2,030**
Additions to interest-bearing securities	11	**-1,601**	-569
Sale and redemptions of interest-bearing securities	11	**2,017**	777
		416	**208**
Additions to tangible assets	13	-1	-1
Disposals	13	0	0
		-1	**-1**
Additions to intangible assets	12	-2	-1
Net cash flow used in investing activities		**413**	206
Long-term debt securities issued	19	10,190	12,453
Redemption of long-term debt securities	19	-9,790	-8,179
Short-term debt securities issued	19	162,393	117,512
Redemption of short-term debt securities	19	-164,036	-117,571
Subordinated debt issued	19	-	-
		-1,243	**4,215**
Dividend paid	29	-	-
Net cash flow from financing activities		**-1,243**	**4,215**
Net cash flow		**601**	**2,391**

(in millions of euros)	2018	2017
Cash flow	601	2,391
Cash and cash equivalents as at 1 January	9,637	7,246
Cash and cash equivalents as at 31 December	**10,238**	**9,637**

The cash and cash equivalents include deposits at the Central Bank and current account balance receivables from credit institutions. In 2018, the interest paid amounted to €1,306 million (2017: €1,224 million) and the interest received amounted to €1,488 million (2017: €1,504 million). These amounts are included under Other assets and liabilities in the statement of cash flows. In 2018, the income tax paid amounted to €49.2 million (2017: €50.0 million) and the bank tax paid amounted to €17.7 million (2017: €19.9 million).

GENERAL NOTES TO THE FINANCIAL STATEMENTS

CORPORATE INFORMATION

The 2018 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 2019, and will be submitted for approval to the Annual General Meeting of Shareholders (AGM) on 18 April 2019.

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 OF THE FINANCIAL STATEMENTS

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 principal) are recognised at the transaction date. Accordingly, a financial asset or financial liability is recognised from the time the company has the right to the benefits from or is bound by the obligations arising from the contract terms of the financial instrument. The loan principal is recognised at the settlement date.

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

Derecognition of financial assets and liabilities

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

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

Measurement

Upon initial recognition, financial assets and liabilities are stated at fair value, including 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. The bank rolled out new valuation software in 2018.

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. 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.

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 the interest-bearing security in question is derecognised, the cumulative unrealised gain or loss on an individual asset recorded directly in equity is taken to profit or loss. Any cumulative decrease in value below cost is immediately taken to profit or loss. Any subsequent unrealised increase in value of the relevant interest-bearing security 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 current cost. The valuation is carried out on the basis of the value in use if it is lower than the current cost. The net realisable value will be used if it is higher than the value in use but lower than the current 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 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.
- 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.
- The host contract is not carried at fair value through profit or loss.
- A separate instrument having the same characteristics would be classified as a derivative.

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

Banks, Funds entrusted, Debt securities and Subordinated debt

All loans under Banks, Funds entrusted, Debt securities and Subordinated debt are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in net interest income when the liabilities are derecognised.

Employee benefits – defined benefit plan obligations

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

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

A defined benefit pension plan is a scheme in which the payment to the retired plan participant is defined, taking account of factors such as age, years of service and salary. The provision for defined benefit plans 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 offset and reported on a net basis if there is a legally enforceable right to offset the recognised amounts and if there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognised if it is probable that the economic benefits will flow to NWB Bank and the revenue can be reliably measured.

Net interest income

Interest income and expenses are recognised in the income statement 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 Dutch Tax and Customs Administration. The tax payable is calculated on the basis of current tax rates and tax laws.

Deferred tax assets and liabilities

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, if it is probable that taxable profit is available against which the deductible temporary differences can be set off, and the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and 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 Banks 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.

Other developments

The Dutch Accounting Standards Board has decided that IFRS 9 can also be applied under NL GAAP as regards the expected loss model. The bank is examining its possible application in its reporting.

NOTES TO THE STATEMENT OF INCOME

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 interest-like commission received, 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 paid, 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.

	2018	2017
Interest income on cash, cash equivalents and deposits at the Central Bank and loans and receivables at amortised cost	1,534,656	1,581,441
Interest income on interest-bearing securities	19,566	27,251
Commission	1,269	477
Negative interest expense	11,460	5,556
Interest income	**1,566,951**	**1,614,725**
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	-403,089	-407,542
Derivatives (net interest income/expense)	-766,307	-815,045
Negative interest expense	-163,459	-116,604
Interest expense	**-1,332,855**	**-1,339,191**
Net interest income	**234,096**	**275,534**

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:

	2018	2017
Changes in the fair value of derivatives included in macro hedge accounting	-173,893	2,704,465
Revaluation of financial assets and liabilities included in hedge accounting	175,740	-2,707,139
Macro hedge accounting ineffectiveness	**1,847**	**-2,674**
Micro hedge accounting ineffectiveness	916	-129
Total hedge accounting ineffectiveness	**2,763**	**-2,803**
Other changes in the fair value of restructured derivatives included in hedge accounting	-46,780	-63,114
Changes in the fair value of derivatives not included in hedge accounting	3,347	3,671
Change in counterparty credit risk of derivatives (CVA/DVA)	-4,101	-939
Results from maturity extensions and early redemptions	-	735
Other fair value changes	-3,533	4,260
Total	**-48,304**	**-58,190**

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 of the financial instruments when applying hedge accounting is €16,569 million at 31 December 2018 (31 December 2017: €16,744 million) on the assets side of the balance sheet and €9,007 million at 31 December 2018 (31 December 2017: €12,836 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 number of employees expressed in FTEs (including the Executive Committee) totalled 65.2 at the end of the financial year (2017: 57.2). Three FTEs are statutory members of the Executive Committee (together: the Managing Board), one is a non-statutory member of the Executive Committee, eight are department heads and 53.2 are staff members (2017: two members of the Managing Board, nine department heads and 46.2 staff members).

	2018	2017
Wages and salaries	**5,555**	5,267
Pension costs	**2,272**	1,868
Other social security costs	**695**	538
Other staff costs	**1,143**	664
	9,665	8,337

In 2018, salary costs rose as a result of an increase in headcount and index-linked negotiated wages plus annual increments. The Other staff costs have increased due to higher costs for temporary staff and training.

Melchior de Bruijne joined the Managing Board as Chief Financial Officer on 1 December 2018. The remuneration of the Managing Board, including regular pension costs and other specific components as shown in the table below, amounted to €683,000 in 2018 (2017: €865,000).

	Fixed Remuneration	**Variable remuneration**	**Deferred component of variable remuneration[1]**	**Pension contribution**	**Other**	**Total**
2018						
Lidwin van Velden	235	24	12	36	38	345
Frenk van der Vliet	217	22	11	34	34	318
Melchior de Bruijne[4]	17	-	-	2	1	20
Total	**469**	**46**	**23**	**72**	**73**	**683**

	Fixed Remuneration	**Variable remuneration**	**Deferred component of variable remuneration[2]**	**Pension contribution**	**Other**	**Total**
2017						
Menno Snel[3]	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**

1) This is the deferred component of the variable remuneration for 2018, to be assessed in 2022.

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

3) Retired from office on 25 October 2017 owing to his having been appointed State Secretary for Finance. Owing to his premature departure, he did not receive any variable remuneration.

4) The 2018 variable remuneration does not apply to Melchior de Bruijne for 2018 given that he only joined the bank on 1 December 2018.

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

The Supervisory Board has decided to definitively grant the deferred component of the variable remuneration for 2015. The deferred component for 2015 definitively granted to Lidwin van Velden amounts to €9,000 (2014: €10,000) and the component definitively granted to Frenk van der Vliet amounts to €9,000 (2014: €6,000) for Frenk van der Vliet.

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 2018 (2017: €3,000).

A staff mortgage loan discount plan; in 2018, this taxed allowance amounted to €3,000 (2017: €2,000) for Lidwin van Velden and €1,000 (2017: €1,000) for Frenk van der Vliet.

A contribution for the net pension scheme; in 2018, this taxed allowance amounted to €24,000 (2017: €23,000) for Lidwin van Velden and €21,000 (2017: €18,000) for Frenk van der Vliet. This allowance amounted to €1,000 for Melchior de Bruijne in 2018.

Compensation for the harmonisation of the pension scheme; in 2018, this taxed allowance amounted to €8,000 for Lidwin van Velden (2017: €7,000) and €10,000 for Frenk van der Vliet (2017: €10,000).

The bank has also made a car available to the statutory-members of the Executive Committee.

4 OTHER ADMINISTRATIVE EXPENSES

This item includes regulation and consultancy, accommodation, office and general expenses. The administrative expenses can be broken down as follows:

	2018	2017
Consultancy and regulatory fees	4,276	4,269
Information and communication	2,856	2,630
Other costs	3,325	2,631
	10,457	**9,530**

The other costs rose due to an increase in the costs of payment services.

The remuneration of the seven (2017: seven) Supervisory Board members, which is also included in the other costs, amounted to €229,000 (2017: €206,000).

Remuneration of the Supervisory Board members

(in thousands of euros)	**2018**	2017
Age Bakker	60[1)]	50
Peter Glas	29	29
Petra van Hoeken	28	28
Frida van den Maagdenberg	28	19
Toon van der Klugt	28	14
Maurice Oostendorp	28	28
Albertine van Vliet-Kuiper	-	9
Manfred Schepers	28	29
	229	**206**

1) Including the payment outlined in the remuneration report with regard to 15 coordination meetings with the Managing Board.

The above amounts include travel expense reimbursements and VAT. 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.

	2018	2017
Audit of the financial statements	278	271
Other assurance engagements	162	188
	440	**459**

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 and the procedures involved in reporting to the supervisory authority.

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 2018 and 2017 are based on the balance sheet at year-end 2017 and 2016, respectively, and are charged to the profit for 2018 and 2017, respectively.

Bank tax is based on the ratio of current liabilities at the end of the previous financial year amounting to €21,403 million (2017: €22,898 million) and long-term liabilities for the previous financial year amounting to €64,093 million (2017: €70,009 million). The total amount of bank tax paid in 2018 was €17.7 million (2017: €19.9 million).

Under the Bank Recovery and Resolution Directive (BRRD), the bank is required to pay a resolution levy. The levy for the year 2018 was paid to the Single Resolution Fund and amounted to €11.4 million (2017: €9.1 million). Of this amount, €1.7 million was paid in the form of Irrevocable Payment Commitments (2017: €1.4 million) and €9.7 million was charged to the profit for 2018 (2017: €7.7 million).

7 INCOME TAX EXPENSE

	2018	2017
Profit before income tax	136,356	170,008
Income tax at 25.0%	34,089	42,502
Non-deductible expenses relating to bank tax	4,429	4,984
Reduction of future income tax rate	-1,846	-
Other non-deductible expenses and adjustments	-13	-5
Income tax expense	**36,659**	**47,481**
Effective tax burden (%)	**26.9%**	**27.9%**

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

	2018	2017
Current tax		
For the current financial year	41,138	49,813
Deferred tax		
Release/addition relating to provision for pensions	-28	-1,106
Income tax on income and expenses recognised directly in equity	-288	889
Results from 'basisrentelening' loans deferred for tax purposes	-786	-786
Results from maturity extensions deferred for tax purposes	-1,531	-1,329
Reduction of future income tax rate	-1,846	-
	-4,479	-2,332
Income tax expense	**36,659**	**47,481**

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

In 2018, the government decided to reduce the income tax rate in increments over the next few years. The percentage will drop from 25% in 2019 to 22.55% in 2020 and 20.5% in 2021. The reduction in the rates will result in lower deferred tax liabilities, the effect of which has been recognised in the preparation of the financial statements above under Reduction of future income tax rate.

NOTES TO THE BALANCE SHEET

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:

	2018	2017
Balances payable on demand	117	146
Receivables under collateral arrangements	4,490,937	8,654,387
Receivables guaranteed by the Dutch government	99,323	99,971
Total	**4,590,377**	**8,754,504**

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:

	2018	2017
As at 1 January	**60,972,929**	**64,496,020**
Newly granted long-term loans	6,949,214	5,737,110
Newly granted short-term loans	10,435,253	9,299,884
Redemptions	-17,399,546	-15,631,398
Value adjustment for fair value hedge accounting	474,331	-2,928,155
Value adjustment for separated derivatives embedded in loans and receivables	-27,167	-532
As at 31 December	**61,405,014**	**60,972,929**

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

	2018	2017
Receivables from or guaranteed by the Dutch government	49,302,707	49,681,979
Other receivables from the public sector and miscellaneous	983,840	619,648
Value adjustment for fair value hedge accounting	11,149,103	10,674,772
Fair value of separated derivatives embedded in loans and receivables	-30,636	-3,470
	61,405,014	60,972,929

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

	2018	2017
Water authorities	7,074,337	6,873,545
Municipalities	6,384,388	6,464,516
Social housing	32,102,640	31,655,797
Other	3,741,342	4,688,121
	49,302,707	**49,681,979**

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 2018, an exposure amounting to €8 million was classified as a performing forborne exposure. The classified exposure of €17 million in 2017 was no longer forborne at the end of 2018.

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 €11.2 billion at the end of 2018 (€11.4 billion at the end of 2017).

Of the loans and receivables, a nominal €3.0 billion have a remaining term to maturity of less than 12 months (2017: €2.3 billion).

11 INTEREST-BEARING SECURITIES

This item can be broken down as follows:

	2018	2017
Interest-bearing securities held to maturity	1,400,189	1,805,659
Other listed interest-bearing securities	866,004	1,288,433
Other unlisted interest-bearing securities	1,024,321	603,345
	3,290,514	**3,697,437**

The movements in interest-bearing securities in 2018 and 2017 were as follows:

	Public sector bodies	Other	Total
As at 1 January 2018	**1,175,198**	**2,522,239**	**3,697,437**
Purchases	1,302,500	298,698	**1,601,198**
Sales and redemptions	-815,464	-1,201,155	**-2,016,619**
Value changes in Other interest-bearing securities	18,439	-9,941	**8,498**
As at 31 December 2018	**1,680,673**	**1,609,841**	**3,290,514**

The collateral value of the portion of the interest-bearing securities portfolio contributed as collateral to DNB was €0.6 billion as at 31 December 2018 (€0.4 billion as at 31 December 2017). Furthermore, in 2018, €0.6 billion (2017: €0.3 billion) in collateral was issued to a banking counterparty. Of the Interest-bearing securities, a nominal €704 million (2017: €354 million) have a remaining term to maturity of less than twelve months.

The cumulative amounts as at 31 December 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**

12 INTANGIBLE ASSETS

This item comprises capitalised expenses related to software. The breakdown of this item in 2018 and 2017 is as follows:

	2018	2017
Carrying amount as at 1 January	**2,353**	**1,944**
Additions	1,751	1,238
Amortisation	-945	-829
Carrying amount as at 31 December	**3,159**	**2,353**

The cumulative amounts as at 31 December were as follows:

	2018	2017
Additions	12,355	10,604
Amortisation	-9,196	-8,251
Carrying amount as at 31 December	**3,159**	**2,353**

13 TANGIBLE ASSETS

This item comprises capitalised expenses related to the office building and other equipment. The current value of the office building was redetermined in 2016 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 2018 is as follows:

	Property in use by the bank	**Other equipment**	**Total**
Carrying amount as at 31 December 2017	**4,472**	**1,182**	**5,654**
Additions 2018	65	520	**585**
Disposals 2018	-	-	**-**
Depreciation in 2018	-580	-379	**-959**
Carrying amount as at 31 December 2018	**3,957**	**1,323**	**5,280**

The cumulative amounts as at 31 December 2018 were as follows:

	Property in use by the bank	Other equipment	Total
Additions	**9,861**	**8,860**	**18,721**
Depreciation	-7,457	-7,537	**-14,994**
	2,404	1,323	**3,727**
Revaluations	1,553	-	**1,553**
Carrying amount as at 31 December 2018	**3,957**	**1,323**	**5,280**

The breakdown of this item in 2017 is 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**	**5,654**

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**	**5,654**

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 2018 breakdown of derivatives below, derivatives totalling €63,264 (2017: €68,960) were not included in hedge accounting.

Breakdown by remaining term to maturity of fair values as at 31 December 2018:

	<3 months	3-12 months	1-5 years	>5 years	2018 Total
Interest rate swaps	16	3,753	448,458	1,318,503	**1,770,730**
Currency swaps	445,309	307,341	578,204	715,498	**2,046,352**
Caps, floors and swaptions	-	-	-	345,428	**345,428**
Total	**445,325**	**311,094**	**1,026,662**	**2,379,429**	**4,162,510**

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	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**

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:

	2018	2017
Loans taken out at banks	772,696	646,523
Value adjustment for fair value hedge accounting	-2,045	-11,959
Liabilities under collateral arrangements	745,979	509,791
Exposure Central Clearing	6,567	9,639
	1,523,197	**1,153,994**

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:

	2018	2017
Funds entrusted	5,739,443	5,363,502
Value adjustment for fair value hedge accounting	788,151	743,118
	6,527,594	**6,106,620**

19 DEBT SECURITIES

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

	2018	2017
Bond loans	56,812,454	55,860,727
Short-term debt securities	8,267,011	9,592,834
Value adjustment for fair value hedge accounting	1,270,580	959,459
Fair value of separated derivatives embedded in loans and receivables	-49,960	4,545
Carrying amount as at 31 December	**66,300,085**	**66,417,565**

Of the total amount in long-term debt securities issued, a nominal €5.5 billion (2017: €5.7 billion) carries a variable interest rate. Of the long-term debt securities, a nominal €12.5 billion (2017: €9.7 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:

	2018	2017
As at 1 January	**16,461**	**19,426**
Change as a result of adjustments for previous years	-	-
Change as a result of temporary differences in the financial year recognised in profit or loss	-819	-849
Results from 'basisrentelening' loans deferred for tax purposes	-786	-786
Results from maturity extensions deferred for tax purposes	-1,532	-1,330
Change in income tax rate in the period ahead	-1,846	-
As at 31 December	**11,478**	**16,461**

Pension provision

The movements in the pension provision are as follows:

	2018	2017
Current service cost	1,839	1,548
Past service costs	-	-
Interest cost	762	701
Expected return on plan assets	-495	-507
Administrative and other costs	32	4
Employee benefits expenses	**2,138**	**1,746**

	2018	2017
Defined benefit obligation	42,911	42,732
Fair value of plan assets	-27,513	-27,446
Employee benefits provision	**15,398**	**15,286**

	2018	2017
Opening balance defined benefit obligation	42,732	37,335
Interest cost	762	701
Current service cost	1,839	1,548
Benefits paid	-811	-937
Employee contributions	79	58
Gain (loss) caused by changes (in assumptions) in plan assets	-1,690	4,027
Closing balance defined benefit obligation	**42,911**	**42,732**

	2018	2017
Opening balance fair value of plan assets	27,446	26,473
Employer contributions	872	878
Employee contributions	79	58
Benefits paid	-811	-937
Return including interest income	-73	974
Fair value of plan assets as at 31 December	**27,513**	**27,446**

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

The projected employer contributions for 2019 to the defined benefit plans amount to €2.4 million at the end of 2018 (2017: €2.1 million).

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

	2018	2017
Discount rate	**1.90%**	1.80%
Expected rate of return on assets	**1.90%**	1.80%
Future salary/pay increases	**1.90%**	1.90%
Future pension increases	**1.90%**	1.90%

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

21 INCOME TAX

Income tax payable in 2018 and 2017 can be broken down as follows:

	2018	2017
2017	-	-177
2018	-8,102	-
Carrying amount as at 31 December	**-8,102**	**-177**

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

	2018	2017
Current tax expense	41,138	49,813
Advances paid	-49,240	-49,990
Total	**-8,102**	**-177**

22 OTHER LIABILITIES

This item can be broken down as follows:

	2018	2017
Prepaid interest and redemptions	27,595	34,083
Other liabilities	2,092	21,583
Total	**29,687**	**55,666**

23 DERIVATIVE LIABILITIES

This item consists of interest rate swaps and currency swaps, caps, floors and swaptions. These products are carried at fair value, including accrued interest. Generally accepted valuation models are applied, based on the most appropriate valuation curves, which include the OIS curve. In the 2018 breakdown of derivatives below, derivatives totalling €61,977 (2017: €67,425) were not included in hedge accounting.

Breakdown by remaining term to maturity of negative fair values as at 31 December 2018:

	<3 months	3-12 months	1-5 years	>5 years	2018 Total
Interest rate swaps	19,280	35,696	369,359	5,656,746	**6,081,081**
Currency swaps	97,081	82,794	359,701	294,106	**833,682**
Caps, floors and swaptions	-	-	-	337,517	**337,517**
Total	**116,361**	**118,490**	**729,060**	**6,288,369**	**7,252,280**

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	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**

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 and 2018.

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:

	2018	2017
As at 1 January	**326,509**	**325,941**
Subordinate debt issued	**-**	-
Change in accrued interest and premium	**-133**	568
As at 31 December	**326,376**	**326,509**

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 2018:

	Issued	Paid up
A shares		
As at 31 December 2018 (50,478 shares)	5,805	5,805
B shares		
As at 31 December 2018 (8,511 shares)	3,915	
Of which unpaid: (74% of 8,510 shares)	-2,896	
		1,019
Total paid up as at 31 December 2018		**6,824**
Total paid up as at 31 December 2017		6,824

27 REVALUATION RESERVES

The movements in interest-bearing securities in 2018 and 2017 were as follows:

	Revaluation reserve Interest-bearing securities	Other revaluation reserves	Total
As at 1 January 2017	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**
Changes in the (unrealised) value of interest-bearing securities	-2,372	-	**-2,372**
As at 31 December 2018	**146**	**1,231**	**1,377**

28 OTHER RESERVES

The movements in other reserves were as follows:

Other reserves	
As at 1 January 2017	**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**
Appropriation of 2017 profit	122,527
Distribution for 2017	-
Changes in value as part of the pension provision	866
As at 31 December 2018	**1,617,960**

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)		2018		2017
Profit for the year		99,697		122,527
The proposed profit appropriation is as follows:				
Cash dividends on A shares	293%	17,014	0%	-
Cash dividends on B shares	293%	2,986	0%	-
		20,000		-
Added to the reserves on the approval of the Supervisory Board		**79,697**		122,527
		99,697		122,527

30 IRREVOCABLE COMMITMENTS

These commitments relate to:

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.

	2018	2017
Loans granted but not yet paid	1,053,737	1,113,779
Committed purchase of interest-bearing securities	35,000	-
Unused current account overdraft facilities	886,463	911,684
Unused financing facilities	1,781,603	2,050,053
Guarantees issued	2,349	2,389
	3,759,152	**4,077,905**

31 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2018. The contingent liabilities not included in the balance sheet consist 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 as at 31 December 2017.

OTHER NOTES TO THE FINANCIAL STATEMENTS

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 in 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 31-12-2018	**Fair value 31-12-2018**	Carrying amount 31-12-2017	Fair value 31-12-2017
Assets				
Cash, cash equivalents and deposits at the Central Bank	10,237,420	10,237,420	9,637,531	9,637,531
Banks	4,590,377	4,590,377	8,754,503	8,754,503
Loans and receivables	61,405,014	64,388,161	60,972,929	63,271,869
Interest-bearing securities	3,290,514	3,294,148	3,697,437	3,703,525
Derivative assets	4,162,510	4,162,510	4,048,370	4,048,370
Liabilities				
Banks	1,523,197	1,514,830	1,153,994	1,148,184
Funds entrusted	6,527,594	6,524,831	6,106,620	6,091,336
Debt securities	66,300,085	66,985,907	66,417,565	66,957,424
Subordinated debt	326,376	381,322	326,509	381,595
Derivative liabilities	7,252,281	7,252,281	11,401,851	11,401,851

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 2018 (in millions of euros)	**Measurement based on market prices**	**Measurement based on models using data available in the market**	**Measurement based on models using data unavailable in the market**
Assets			
Other listed interest-bearing securities	866	-	-
Derivative assets	-	4,163	-
Separated derivatives	-	-4	-
Liabilities			
Derivative liabilities	-	7,252	-
Separated derivatives	-	-17	-

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

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

Financial derivatives

	2018	2017
Notional amounts of interest rate derivatives		
Breakdown according to remaining terms to maturity:		
Up to one year	5,493,542	12,062,209
Between one and five years	19,557,175	20,775,740
More than five years	65,266,301	53,263,813
	90,317,018	**86,101,762**
Notional amounts of currency derivatives		
Breakdown according to remaining terms to maturity:		
Up to one year	16,093,980	16,851,793
Between one and five years	9,288,538	13,695,746
More than five years	6,964,227	6,575,926
	32,346,745	**37,123,465**

The notional amounts of the caps and floors total €46 million (2017: €50 million) and those of the swaptions €1,491 million (2017: €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 current 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), 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 2018, 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 2018, 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.

31 December 2018 (in millions of euros)	Total	< 3 months	3-12 months	1-5 years	> 5 years
Assets					
Loans and receivables	85,559	26,757	4,826	13,654	40,322
Interest-bearing securities	3,317	607	768	1,017	925
Fixed-interest derivative assets	52,243	8,153	4,456	17,734	21,900
Fixed-interest derivative assets	-47,459	-38,242	-9,490	209	64
Total assets	**93,660**	**-2,725**	**560**	**32,614**	**63,211**
Liabilities					
Banks, funds entrusted and debt securities	75,212	16,285	8,012	23,403	27,512
Subordinated debt	381	1	8	38	334
Fixed-interest derivative liabilities	40,772	-859	861	7,809	32,961
Fixed-interest derivative liabilities	-26,067	-13,349	-12,733	-9	24
Total liabilities	**90,298**	**2,078**	**-3,852**	**31,241**	**60,831**
Total assets less liabilities in 2018	**3,362**	**-4,803**	**4,412**	**1,373**	**2,380**
Total assets less liabilities in 2017	3,308	-3,200	2,847	1,212	2,449

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 2018 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 €97 million higher (2017: €96 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
Interest rate shock of +100 bp	**-74**	23	-97
Interest rate shock of -100 bp	**14**	-7	21

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

NWB Bank has an AAA/Aaa credit rating identical to that of the State of the Netherlands. With this credit rating, under normal circumstances, NWB Bank should always easily be able to cover its current and future liquidity requirements in the market. In the event of market stagnation, NWB Bank has sufficient means, among other things in the form of liquid assets and collateral pledged with DNB, to repay loans and finance new loans at all times. NWB Bank currently has an ample collateral position at DNB. Virtually the entire loans portfolio of NWB Bank is accepted as collateral at DNB. The collateral value of the portion of the portfolio contributed as collateral to DNB was €11.8 billion as at 31 December 2018 (€11.8 billion as at 31 December 2017). 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 2018 totalled €8.3 billion (as a 31 December 2017: €9.6 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 Liquidity Coverage Ratio (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% will apply. NWB Bank meets both minimum requirements as at 31 December 2018. The LCR was 222% at the balance sheet date (2017: 178%) and the NSFR 127% (2017: 126%).

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	3-12 months	1- 5 years	> 5 years
31 December 2018					
(in millions of euros)					
Assets					
Cash, cash equivalents and deposits at the Central Bank	10,237	10,237	-	-	-
Banks	4,593	-7	12	47	4,541
Loans and receivables	75,504	1,939	6,059	21,067	46,439
Interest-bearing securities	3,385	22	968	1,398	997
Intangible assets	3	-	-	3	-
Tangible assets	5	-	-	1	4
Income tax	8	8	-	-	-
Derivative assets	14,471	797	779	2,849	10,046
Other assets	13	6	2	0	5
Prepayments and accrued income	0	0	0	0	0
Total as at 31 December 2018	**108,219**	**13,002**	**7,820**	**25,365**	**62,032**
Total as at 31 December 2017	109,113	12,708	7,031	26,671	62,703
Liabilities					
Banks	1,620	27	13	153	1,427
Funds entrusted	11,571	322	61	798	10,390
Debt securities	72,685	11,815	9,895	23,226	27,749
Subordinated debt	391	1	8	38	344
Derivative liabilities	25,178	355	861	3,977	19,985
Pension provision	15	-	-	-	15
Provision for deferred income tax	11	-	-	11	-
Income tax	-	-	-	-	-
Other liabilities	30	26	4	0	-
Accruals	3	3	0	-	-
Equity	1,726	-	-	-	1,726
Total as at 31 December 2018	**113,230**	**12,549**	**10,842**	**28,203**	**61,636**
Total as at 31 December 2017	110,222	11,379	10,439	32,204	56,200

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 creditworthiness of the loans portfolio. NWB Bank principally lends to governments and government-backed institutions. It also provides loans to drinking water companies and finances PPP projects with the government as the contracting authority. Loans are also provided to other client groups in the public sector, including 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 bonds securitised by Dutch mortgage loans covered by a National Mortgage Guarantee (NHG), applying the same quality standards as for domestic lending. Lastly, the bank enters into agreements with banks and pension funds 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, the bank monitors the positions at the portfolio level; these positions are 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 assessment of the loans portfolio also takes into account ESG (Environment, Social, Governance) risks. These risks include governance aspects in the case of housing associations and the Equator Principles in the case of PPP loans. This assessment framework will be developed further in over the years to come. The CSR aspects of the credit risk management policy are dealt with in the Report of the Managing Board under 'The sustainable water bank'.

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 €87.5 billion at the end of 2018 (€91.2 billion at the end of 2017).

:

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

2018		Europe			North America	Total	RWA
		NL	EU	Non-EU			
Central governments	0%	10,295	602	-	-	10,897	-
Regional governments	0%	17,996	-	-	-	17,996	-
Institutions with delegated government duties	0%-100%	47,964	122	-	-	48,087	900
International organisations	0%	-	104	-	-	104	-
Banking counterparties[1]	0%-50%	3,966	2,162	341	1,130	7,599	403
RMBS (NHG) notes[1]	20%	766	-	-	-	766	153
Covered bonds	10%	551	-	-	-	551	55
Other	100%	201	-	-	-	201	39
Total		**81,740**	**2,990**	**341**	**1,130**	**86,201**	**1,550**

2017		Europe			North America	Total	RWA
		NL	EU	Non-EU			
Central governments	0%-50%	9,815	100	-	-	9,915	23
Regional governments	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[1]	2%-50%	5,006	4,483	309	998	10,796	456
RMBS (NHG) notes[1]	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**

[1] 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 comprise senior A notes under the 20% weighting category. Lastly, loans provided to Dutch drinking water companies, network 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)	2018		2017	
	Nominal value	Balance sheet value	Nominal value	Balance sheet value
Municipalities	5,629	6,429	5,932	6,793
Other public authorities	247	319	269	355
Social housing	30,265	41,570	29,973	40,363
Healthcare institutions	2,119	2,418	3,092	3,763
Other borrowers under government guarantee	541	589	431	476
Joint schemes	706	736	706	730
Government-controlled public limited liability companies	489	534	408	428
Public-Private Partnerships	250	258	140	139
Credit institutions	99	99	100	100
Other	18	17	42	45
Total	**46,690**	**60,236**	**47,280**	**60,298**

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 2018, NWB Bank held notes of RMBS programmes from two Dutch originators in its portfolio (2017: five), securitised by Dutch mortgage loans backed by the government under the 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 2018.

Rating	Nominal amount (million)	Expected expiry date	Class
AAA	765	2021	A

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 2018 was €908 million, of which €740 million was covered by collateral pledged to the bank (2017: €642 million and €506 million). The total fair value exposure from derivatives from financial counterparties at year-end 2018 was €4,181 million, of which €4,169 million was covered by collateral provided by the bank (2017: €8,240 million and €8,188 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 received**	**Net position**
Banking counterparties	3,818	-2,909	-740	167
Non-banking counterparties	345	-	-	345
Total 2018	**4,163**	**-2,909**	**-740**	**512**
Total 2017	4,048	-3,161	-506	381

Liabilities	**Negative fair value derivatives**	**Netting positive fair value derivatives**	**Cash collateral received**	**Net position**
Banking counterparties	-7,090	2,909	4,169	-12
Non-banking counterparties	-162		162	0
Total 2018	**-7,252**	**2,909**	**4,331**	**-12**
Total 2017	-11,402	3,161	8,187	-54

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.

	2018				2017			
CCY	**Asset**	**Liability**	**Derivatives**	**Total**	Asset	Liability	Derivatives	**Total**
AUD		**-4,919**	**4,919**	**-**		-3,779	3,779	-
CAD		**-393**	**393**	**-**		-592	592	-
CHF		**-2,735**	**2,735**	**-**		-3,260	3,260	-
GBP		**-1,790**	**1,790**	**-**		-1,927	1,927	-
HKD		**-100**	**100**	**-**		-100	100	-
JPY		**-140,009**	**140,009**	**-**		-175,403	175,403	-
NOK		**-500**	**500**	**-**		-500	500	-
NZD		**-152**	**152**	**-**		0	0	-
SEK		**-7,550**	**7,550**	**-**		-4,630	4,630	-
USD		**-26,183**	**26,183**	**-**	52	-32,158	32,106	-
ZAR		**-**	**-**	**-**		-116	116	-

NON-FINANCIAL RISKS: 'The possible impact on profit and capital of interest rate fluctuations.'

The non-financial risks at NWB Bank are divided 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, the bank set up an independent Operational Risk Management (ORM) unit and added various disciplines to the Operational Risk Committee, making it a Non-Financial Risk Committee (NFRC).

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 PARP. 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, 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.

Supervisory and Managing Board members, as well as staff members 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.

Up until 1 October 2018, NWB Bank assigned its various compliance-based duties to the Legal & Compliance Department. On 1 October 2018, the compliance role was separated from the Legal Department and made independent of the first line. The first steps have been taken towards establishing the compliance framework and further strengthening the role of compliance. The compliance function has two core tasks. Compliance is responsible for promoting and monitoring compliance with the law as well as internal and external regulations. In addition, compliance plays a role in promoting the integrity of the organisation. One example of the steps that the bank has taken in this area is the tightening of its Customer Due Diligence policy in line with changes in the law. The bank has assigned responsibility for the supervision of compliance with the Insider Regulation to an external party. The external Compliance Officer reports to the Managing Board and the Supervisory Board, while the internal Compliance Officer reports directly to the CEO and has an escalation path to the Chair of the Supervisory Board. The strengthening of the compliance function confirms the value that the bank attaches to the compliance-based duties.

As the quantity and complexity of laws and regulations are increasing, so are the number of rules and requirements imposed by the regulators. This situation puts increasing pressure on the management of compliance risks. To this end, the bank has a Regulatory Team, which is responsible for identifying and exchanging information on developments in the laws and regulations. The Regulatory & Compliance Officer has a coordinating role within the Regulatory Team.

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. Market risk concerns risks in the trading portfolio and currency and commodity risks. NWB Bank does not keep a trading portfolio and has no commodity positions. Due to its stringent policy on currency risk, on balance, there are no outstanding currency positions and therefore the capital that is to be reserved to cover market risk is nil. When calculating qualifying capital for operational risk, NWB Bank uses the standardised approach. Under this approach, 15% of the relevant indicator is taken as a benchmark for the operational risk. The relevant indicator is the three-year average of the total of the annual net interest income and the annual net non-interest income at the end of the financial year. The large positions rules stipulate how much capital a bank must reserve for concentration risk. NWB Bank's large positions are mainly connected to the derivatives portfolio. The risks arising from these positions are limited as far as possible by concluding CSAs and applying netting to derivatives contracts.

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

Assets	**2018**	2017
Equity excluding profit for the current financial year	1,626	1,505
Intangible assets	-3	-2
Prudential filters and other	-5	-3
CET1 capital	1,618	1,500
Additional Tier 1 capital	320	320
Tier 1 capital (A)	**1,938**	**1,820**
Weighted credit risk (SA[1])	1,550	1,593
Capital requirement pursuant to CVA (SA[1])	713	796
Weighted operational risk (SA[1])	364	291
Risk-weighted assets (B)	**2,627**	**2,680**
Tier 1 ratio (A/B)	**74%**	**68%**

1) Standardised approach

At the end of 2018, visible equity totalled €1,626 million (excluding profit for the current financial year) against €1,505 million at year-end 2017 (excluding profit for the current financial year). CET1 capital including Additional Tier 1 capital amounted to €1,938 million at year-end 2018 (excluding profit for the current financial year) against €1,820 million at year-end 2017 (excluding profit for the current financial year). The bank's total risk-weighted assets fell from €2,680 million at the end of 2017 to €2,627 million at the end of 2018. That fall is largely due to the use of central clearing for derivatives and a decline in the NHG RMBS portfolio.

On 1 January 2019, the ECB set the minimum required CET1 ratio for NWB Bank at 9.25% (2018: 7.625%). The 9.25% minimum capital requirement comprises the 4.5% statutory minimum, a 2.5% general capital conservation buffer and a 2.25% bank-specific Pillar 2 Requirement. Both the capital conversation buffer and the bank-specific Pillar 2 Requirement are higher than in 2018. The capital conversation buffer has been introduced in four stages over the past few years and reached the permanent level of 2.5% as of 2019; the increase in the bank-specific Pillar 2 Requirement is a result of the annual Supervisory Review and Evaluation Process (SREP).

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 2018, an amount of €6,426 million in loans had been granted to shareholders on market terms (2017: €6,331 million).

35 EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of signature of the financial statements in 2019, the bank had acquired a public-sector loans portfolio from ABN AMRO to the sum of € 0.6 billion.

36 MANAGING BOARD AND SUPERVISORY BOARD

Managing Board

Lidwin van Velden
Melchior de Bruijne
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 2019

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2018 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the financial statements 2018 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 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The balance sheet as at 31 December 2018;
- The statement of income for 2018;
- 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	€ 16 million (2017: € 15 million)
Benchmark applied	1% of equity
Rational	Based on our professional judgment 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 into account misstatements 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.

The key audit matters are in line with prior year.

Hedge Accounting	
Risk	NWB Bank hedges most interest rate risks and foreign exchange risks related to financial assets and liabilities. For accounting purposes NWB Bank applies two types of fair value hedge accounting, micro and macro hedging. 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 and the hedge relation is formally documented. NWB Bank has developed specific models to calculate hedge effectiveness. NWB Bank only uses derivatives as hedging instrument, measured at fair value on the balance sheet. 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 result from financial transactions including any resulting ineffectiveness. For the year ended 31 December 2018 NWB Bank recorded a net hedge accounting ineffectiveness as disclosed in note 2 'result from financial transactions' of € 2.8 million (2017: € 2.8 million loss). The hedge accounting models used by NWB Bank to determine the effectiveness of the hedges is significant for our audit. The process, including the technical requirements that are applicable to the application of hedge accounting, is complex, inherently subjective and based on assumptions.
Our audit approach	We assessed and tested the design and operating effectiveness of the controls over hedge accounting process. In our audit we have tested, on a sample basis, whether the hedge documentation meets the Dutch GAAP requirements. Furthermore, our hedge specialists have been involved to assess whether the hedge relationships are effective and the hedge effectiveness has been calculated accordingly. Finally, we considered the completeness and accuracy of the disclosures to assess compliance with disclosure requirements included in Dutch GAAP.
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. For a significant part NWB Bank has financial instruments where no market prices are available, and in these cases, fair value is determined using valuation models based on market data. These financial instruments are categorised as level 2 in the fair value hierarchy. NWB Bank has financial assets and financial liabilities categorized as level 2 totalling € 4.1 billon and € 7.2 billion respectively. Due to the magnitude of financial instruments measured at fair value, the implementation of a new valuation tool FINCAD and the inherent complexity of the valuation and the judgments applied by management we determined this to be a key audit matter for our audit.
Our audit approach	We have tested the key controls in the valuation process, including NWB Bank's assessment and approval of assumptions and the methods used in model-based calculations, as well as the control of data quality and the handling of change regarding internal valuation models. We have also tested the general IT controls, including among others logical user access regarding the systems. We have engaged our internal valuation specialists in order to challenge the methods and assumptions used for measuring the value of financial instruments where no market value is available. We have assessed the methods in the valuation models against valuation guidelines and standard industry practice. We have also checked the accuracy of the estimates by comparing with counterparty valuations and conducting sample tests and performed our independent valuations. We also assessed the completeness and accuracy of the disclosures relating to the financial instruments measured at fair value.
Key observations	We have not identified any material misstatements regarding the measurement of the fair value of financial instruments as at 31 December 2018 and the related notes in the financial statements impacting our audit opinion.

Credit quality loan portfolio and loan loss provision	
Risk	The loans and receivables are stated at amortised cost using the effective interest method, less a provision for impairment losses. At 31 December 2018 the total gross loans and receivables amounts to € 61.4 billion, the total impairments reported are nil and disclosed in note 10 of the financial statements. Credit risk and the related impairments are limited for NWB Bank as the majority of the portfolio consists of government guaranteed exposures or by the WSW and WfZ guaranteed funds. The non-guaranteed portfolio has a higher risk for incurred losses. NWB Bank evaluated whether there are any objective indicators of impairment. As required by RJ290 Financial Instruments, an impairment is recognised for credit losses that incurred before or at the balance sheet date. Given the size of the loans and receivables and the level of management judgment involved in identifying indications for impairment, we have identified the credit quality of the loan portfolio and loan loss provision as a key audit matter in our audit.
Our audit approach	We tested the design and operating effectiveness of controls across the lending process. We assessed the credit risk evaluations performed by NWB Bank and independently re-assessed indicators of impairment for a number of risk-based selected files, by, for example, determining that there are no payments in arrears. Furthermore, we reconciled the guarantees as confirmed by WSW and WfZ with NWB Bank's loan portfolio. In addition we sent 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 loan portfolio as per year-end 2018. 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:

- Report of the managing board;
- Report of the supervisory board;
- Corporate governance;
- 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 substantially 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.

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 engagement 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 detect all material errors and fraud during our audit.

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 among others:

- 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 the key audit matters: those matters that were of most significance in the audit of the financial statements. 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 2019

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 profit 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

The profit for the reporting year was €99.7 million. The share of profit available for dividend has been set at €20.0 million by the Managing Board and Supervisory Board. This decision was made in accordance with Article 21 of the Articles of Association.

(in thousands of euros)		2018		2017
Profit for the year		**99,697**		122,527
The proposed profit appropriation is as follows:				
Cash dividends on A shares	293%	17,014	0%	-
Cash dividends on B shares	293%	2,986	0%	-
		20,000		-
Added to the reserves on the approval of the Supervisory Board		79,697		122,527
		99,697		**122,527**

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SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

LIST OF SHAREHOLDERS AT 1 JANUARY 2019

	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	5,666	345
Rijn en IJssel Water Authority	4,858	289
Rijnland Water Authority	3,968	437
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	27-31
Relevant social and employee-related matters (e.g. HR, safety, etc.)	The policies pursued, including due diligence	Yes	65-68
	The results of the policies pursued	Yes	65-68
	The principal risks of the bank's own operations and within the value chain	Yes	65-68
	The management of those risks	Yes	65-68
	Non-financial performance indicators	Yes	65-68
Relevant environmental matters (e.g. the impact of climate change)	The policies pursued, including due diligence	Yes	64
	The results of the policies pursued	Yes	64
	The principal risks of the bank's own operations and within the value chain	Yes	64
	The management of those risks	Yes	64
	Non-financial performance indicators	Yes	64
Relevant subjects relating to respect for human rights (e.g. employee protection)	The policies pursued, including due diligence	Yes	77
	The results of the policies pursued	Yes	77
	The principal risks of the bank's own operations and within the value chain	Yes	77
	The management of those risks	Yes	77
	Non-financial performance indicators	Yes	77
Relevant subjects relating to the fight against corruption and bribery	The policies pursued, including due diligence	Yes	68
	The results of the policies pursued	Yes	68
	The principal risks of the bank's own operations and within the value chain	Yes	68
	The management of those risks	Yes	68
	Non-financial performance indicators	Yes	68
Insight into the diversity policy (Executive Board and Supervisory Board)	The policies pursued	Yes	114-115
	Diversity targets	Yes	114-115
	Description of how the policy is implemented	Yes	114-115
	The results of the policies pursued	Yes	114-115

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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.
- **Biodiversity:** biodiversity or biological diversity is a term for the degree of variety between the life forms in a given ecosystem, biome or an entire planet. Biodiversity is often used as an indicator of the health of an ecosystem.
- **Circular economy:** an economic system aiming to maximise the reusability of products and raw materials, and to minimise 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.
- **Climate adaptation and mitigation:** climate change can have major consequences. Ways of tackling those consequences include adapting to them and mitigating climate change.
- **Climate-neutral:** the organisation's activities should not have a negative impact to the climate and thus will not contribute to climate change.
- **Complaints procedure:** NWB Bank provides stakeholders with an opportunity to submit a complaint through a complaints procedure. This procedure is mentioned on the website.
- **Sustainability exclusion criteria:** within the CSR policy, the sustainability exclusion criteria are applied to NWB Bank's lending portfolio. As a bank of and for the Dutch government, NWB Bank only provides financing to the public sector in the Netherlands. This is clearly defined in Article 2.1 of the Articles of Association. The bank only provides financing within the framework set out in the Articles of Association.
- **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 the financing of projects.
- **Global Reporting Initiative (GRI):** an independent international organisation that helps organisations to communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption, etc.
- **Green Bonds:** NWB Bank issues so-called water bonds, of which the proceeds are used to finance 'green' water authority projects. NWB Bank applies the Green Bond Principles, which are the leading standard upon the issue of such bonds.
- **GRI guidelines:** GRI reporting guidelines used by organisations when reporting on their material issues and the accompanying environmental, social and economic effects.
- **ICSR agreement:** a set of agreements made with banks in the Netherlands on addressing and preventing human rights violations related to the corporate financing and project financing of banks and their business partners.
- **Management approach:** a reporting item within the GRI framework intended to provide information on NWB Bank's strategy and management, and to provide context regarding the reported performance objectives, minimum requirements and trends in CSR performance.
- **Material Topics Plot (MTP):** an overview of the material topics, which are assessed in terms of their importance to the organisation (NWB Bank) on the one hand and to its stakeholders on the other.
- **NWB Fund:** the NWB Fund offers water authorities financial resources so they can contribute to solving global water-related issues based on their core tasks and core values.
- **Platform Carbon Accounting Financials (PCAF):** The PCAF developed methodologies to measure the carbon footprint of investments and loans.
- **Product Approval and Review Process:** a process implemented by the bank, which helps to decide 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.

- **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, are considered to be stakeholders. Obviously, the bank sees 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.
- **UN Global Compact:** a United Nations initiative of relevance to companies 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.

LIST OF ABBREVIATIONS

Abbreviation	Description
AFM	Netherlands Authority for the Financial Markets
AGM	Annual General Meeting of Shareholders
AHB	Affordable Housing Bond
ALCO	Asset & Liability Committee
AT1	Additional Tier 1
AUD	Australian dollar
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
CAD	Canadian dollar
CAS	Capital Adequacy Statement
CDD	Customer Due Diligence
CEB	Council of European Development Bank
CET1	Common Equity Tier 1
CHF	Swiss franc
CIRR	Commercial Interest Reference Rate
CLA	Collective Labour Agreement
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
DBFM	Design Build Finance Maintain
DGS	Deposit Guarantee Scheme
DNB	De Nederlandsche Bank (the Dutch Central Bank)
DSI	Dutch Securities Institute
DV01	Dollar Value of a Basis Point
DVA	Debit Valuation Adjustment
DWA	Dutch Water Authorities
EBA	European Banking Authority
ECB	European Central Bank
ECG	Export Credit Guarantee
ECP	Euro Commercial Paper
EIB	European Investment Bank
EMIR	European Market Infrastructure Regulation

Abbreviation	Description
ESG	Environmental, social and governance
ESMA	European Securities and Markets Authority
EY	Ernst & Young
GBP	British pound
GDPR	General Data Protection Regulation
GRI	Global Reporting Initiative
HKD	Hong Kong dollar
HQLA	High-Quality Liquid Assets
HRM	Human Resource Management
iad	internal audit department
IBOR	Interbank offered rates
ICAAP	Internal Capital Adequacy Assessment Process
ICSR	International Corporate Social Responsibility
ICT	Information and Communications Technology
ILAAP	Internal Liquidity Adequacy Assessment Process
imug	Institut für Markt Umwelt Gesellschaft (Institute for Market Environment Society)
IRRBB	Interest Rate Risk in the Banking Book
ISS	Institutional Shareholder Services
JPY	Japanese Yen
JST	Joint Supervisory Team
KPIs	Key Performance Indicators
LAS	Liquidity Adequacy Statement
LCR	Liquidity Coverage Ratio
MIS	Management Information System
MTP	Material Topics Plot
MVO	Corporate Social Responsibility
NFRC	Non-Financial Risk Committee
NGFS	Network for Greening the Financial System
NHG	National Mortgage Guarantee
NOK	Norwegian Krone
NSFR	Net Stable Funding Ratio
NVB	Dutch Banking Association
NZD	New Zealand dollar
ORM	Operational Risk Management
PARP	Product Approval and Review Process
PCAF	Platform Carbon Accounting Financials

Abbreviation	Description
PPP	Public-Private Partnership
PSD2	Payment Services Directive
QE	Quantitative Easing
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RMBS	Residential Mortgage-Backed Securities
SDGs	Sustainable Development Goals
SEK	Swedish krona
SER	Social and Economic Council of the Netherlands (Sociaal-Economische Raad)
SHH	Stichting Humanitas Huisvesting (housing association)
SPP	Strategic Personnel Planning
SQL	Structured Query Language
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRI	Socially Responsible Investing
SRM	Single Resolution Mechanism
SSA	Sovereigns, Supranationals and Agencies
SSM	Single Supervisory Mechanism
USCP	US Commercial Paper
USD	American dollar
VAT	Value-Added Tax
Wbfo	Financial Undertakings (Remuneration Policy) Act
WFZ	Healthcare Sector Guarantee Fund
WSG	Woningstichting Geertruidenberg (housing association)
WSW	Social Housing Guarantee Fund

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