NWB BANK

Annual report

2019

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Chapters 2, 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 **2019 AT A GLANCE**

NET PROFIT

€ 94.5 MILLION

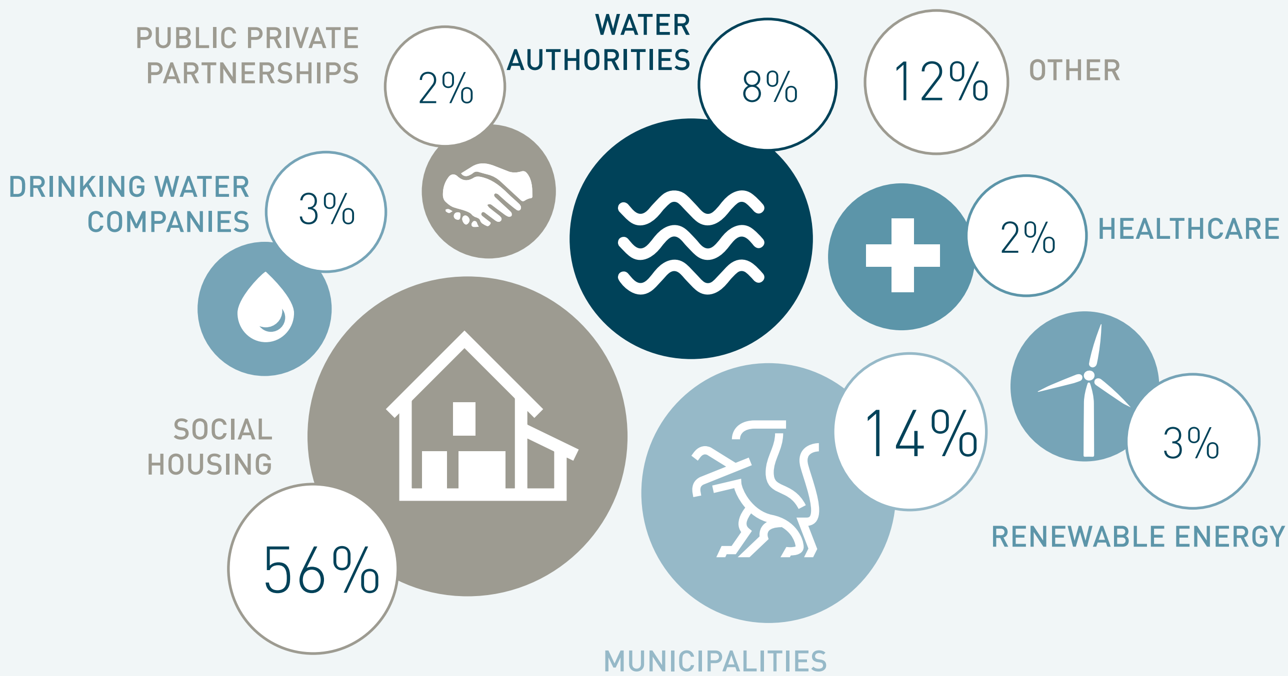
FUNDING

€ 9.9 BILLION OF FUNDING RAISED, OF WHICH
€ 2.5 BILLION (26%) WITH GREEN BONDS AND SOCIAL BONDS

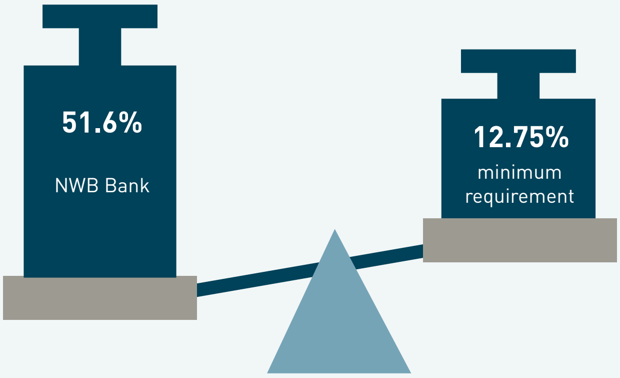
GREEN BONDS:
€ 519 MILLION
SOCIAL BONDS:
€ 2,019 MILLION

LENDING

€ 10.2 BILLION TO THE DUTCH PUBLIC SECTOR



CAPITAL RATIO (CET1 RATIO)



TOTAL ASSETS

€ 96 BILLION

COST/INCOME RATIO

15.5 %

LEVERAGE RATIO

CHARTING THE CLIMATE IMPACT

93% LOAN PORTFOLIO

CO2 EMISSIONS OF LOAN PORTFOLIO

2,636 KT

KEY FIGURES

(in millions of euros)	**2019**	2018	2017	2016	2015
Balance sheet					
Long-term loans and advances (nominal value)[1]	49,436	47,644	47,840	48,669	49,134
Equity[2]	1,741	1,706	1,628	1,507	1,399
Tier 1 capital[2]	2,050	2,018	1,942	1,824	1,594
Total assets	96,205	83,715	87,123	94,414	91,314
Risk-weighted assets	3,277	2,627	2,680	2,979	1,998
Results					
Net interest income	213	234	276	219	177
Results from financial transactions	-39	-48	-58	-25	-6
Operating income	174	186	218	193	171
Operating expenses[3]	27	22	20	19	18
Extraordinary income	11[4]	-	-	-	-
Income tax	41	37	47	42	37
Bank tax and resolution levy	22	27	28	25	21
Net profit	95	100	123	107	95
Dividend					
Dividend distribution	55.0	20.0	-	-	-
Dividend (in euros per share)	932.4	339.0	-	-	-

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
4) Extraordinary income as a result of a change in the pension scheme

(in millions of euros)	2019	2018	2017	2016	2015
Ratios (in %)					
Tier 1 ratio[1]	62.6[2]	76.8[2]	72.5	61.2	79.8
CET 1 ratio[1]	52.8[3]	64.6[3]	60.5	50.5	69.8
Cost/income ratio[4]	15.5	11.8	9.2	9.7	10.5
Dividend pay-out ratio	58.2	20.1	-	-	-
Leverage ratio[5]	15.4	-	-	-	-
Leverage ratio (not adjusted for promotional assets)[6]	2.4	2.6	2.5	2.3	2.1
Liquidity Coverage Ratio	204	222	179	146	134
Net Stable Funding Ratio	118	129	126	123	117
CSR					
Volume of sustainable Bond issuance	2,538	2,744	3,480	1,110	1,000
CO_2 emissions from operating activities p.p. (in tonnes)	2.8	3.7	3.9	4.1	4.0
CO_2 emissions PCAF portfolio coverage (in %)	93	-	-	-	-
CO_2 emissions loan portfolio (in kton)	2,636[7]	-	-	-	-

1) including profit for the financial year less dividend
2) 61.4 excluding profit for the year (2018: 73.8)
3) 51.6 excluding profit for the year (2018: 61.6)
4) excluding bank tax and resolution levy
5) including profit for the financial year less dividend, taking into account the calculation for promotional banks according to CRR II as of 27 June 2019
6) including profit for the financial year less dividend, not taking into account the calculation for promotional banks
7) based on 93% of the loan portfolio

2

ORGANISATION

2. ORGANISATION

NWB BANK'S PROFILE

Nederlandse Waterschapsbank N.V. (hereinafter referred to as NWB Bank) is a bank of and for the public sector with a special focus on water and sustainability. NWB Bank is a national promotional bank. Through its activities, the bank helps public entities achieve their policy goals. NWB Bank was founded in 1954 by the water authorities. Soon after its establishment, the bank also started to provide financing to the wider Dutch public sector. Our clients include water authorities, 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), renewable energy projects and 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. This enables the bank to keep the burden on citizens as low as possible and work towards implementing affordable sustainable practices in the Netherlands.

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 these goals. The transition to a climate-neutral and circular economy will require major investments in the decades ahead, both worldwide *and* in the Netherlands. Renewable energy projects generally involve substantial financing needs and a lengthy period during which the investment must be recouped. The bank is perfectly equipped to provide this type of long-term financing. NWB Bank's significant size, efficient business model and excellent creditworthiness means it is able to keep financing costs low for its clients.

The bulk of the bank's loan portfolio comprises loans to local authorities or institutions guaranteed by local or regional governments. This is one of the reasons why 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 efficient operations mean that NWB Bank can always respond actively to the financing needs of the Dutch public sector.

The funds that NWB Bank lends to its clients are 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). To finance social housing, the bank issues SDG (Sustainable Development Goals) Housing Bonds, and in the past it issued Affordable Housing Bonds. 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 a prominent player in the international field of SRI (Socially Responsible Investing) bonds. In the Netherlands, NWB Bank is even the largest issuer of sustainable bonds.

As a significant bank, NWB Bank is supervised directly by the European Central Bank. Despite the intensity and high requirements of that supervision, 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 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 & corporate affairs, 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 Stichting PharmAccess Group Foundation

Name	**Frenk van der Vliet** (1967)
Year of first appointment	2012
Term of office ends in	2024
Principal position	Member of the Managing Board and Executive Committee, CCO
Portfolio	Public finance, funding & investor relations, asset & liability management and corporate social responsibility
Relevant other positions	None

Name	**Melchior de Bruijne** (1974)
Year of first appointment	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
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 & corporate affairs
Gemma Righolt, IT (as of 1 April 2020)
Bas van Eenige, business change management

SUPERVISORY BOARD

Name	**Age Bakker** (1950), Chair
Committees	Member of the Audit Committee, and Remuneration and Appointment Committee
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 Board of Women in Financial Services (WIFS) Treasurer of the Managing Board of NVB (Dutch Banking Association)

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	2023
Principal position	Member of the Executive Committee / Chief Risk Officer Intertrust Group (from 15 August 2019)
Relevant other positions	Member of the North America Board of Directors and member of the North America Board Risk Committee of Utrecht-America Holdings, Inc. (until 1 August 2019) Member of the Board and Audit Committee of Oranje Fonds Member of the Supervisory Board of DLL Group (until 1 August 2019) Member of the Board of Directors of Nordea Bank Abp (from March 2019)

Name	**Toon van der Klugt** (1956)
Committees	Chair of the Remuneration and Appointment Committee
Year of first appointment	2017 (EGM)
Term of office ends in	2022
Principal position	Chair 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)

Name	**Frida van den Maagdenberg** (1961)
Committees	Member of the Risk 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	**Annette Ottolini** (1958)
Committees	Member of the Remuneration and Appointment Committee
Year of first appointment	2019
Term of office ends in	2023
Principal position	General Manager/Director of Evides Waterbedrijf
Relevant other positions	Member of the Supervisory Board of Delfluent B.V. Member of the Supervisory Board of Spaarnelanden N.V. Member of the Board of Stichting Water for Life Member of the Board of Deltalinqs Member of the Board of Stichting Rotterdam Philharmonic Festival Member of the Supervisory Board of housing association Ons Doel (until May 2019)

Name	**Manfred Schepers** (1960)
Committees	Member of the Audit Committee, member of the Risk Committee
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 Fotowatio Renewable Ventures B.V. Member of the Board Almar Water Solutions B.V. Project manager of Impact Loan Exchange ILX, Cardano Development Chair of the Board of Het Compagnie Fonds, Nation Maritime Museum Member of the Advisory Board of Amsterdam Institute of Finance Member of the Board of Governors of UWC Atlantic College Trustee of UWC Dilijan, Armenia and UWC Maastricht

3

REPORT OF THE MANAGING BOARD

3. REPORT OF THE MANAGING BOARD

INTERVIEW WITH LIDWIN VAN VELDEN, CHAIR OF THE MANAGING BOARD

"A YEAR FULL OF EXCITING SUSTAINABLE PROJECTS, MILESTONES AND CHALLENGES"

In 2018, NWB Bank launched its new strategy, which focuses strongly on the role of the bank as a financing partner for sustainability in the Netherlands. The priority last year was to implement this strategy. This is an opportune moment to look back at an eventful year.

Last year was an important year for the bank. The first steps in the rollout of the new strategy have been taken. How did you experience this?

"For the bank, 2019 was a year full of exciting sustainable projects, milestones and also several challenges. In 2018, we developed a new strategy for the medium term. We formulated clear and ambitious objectives and established a solid foundation for the three pillars of the strategy. During the rollout of the strategy last year, we invested a great deal of time and energy in increasing our visibility in and familiarity with the sustainable energy sector. Internally, we had to ensure that as an organisation, we could make expert judgments about this sector. In many cases, this involves financing with a higher risk profile than we are accustomed to. We therefore invested in our capacity and knowledge in the field of renewable energy, which was necessary to be able to help our customers properly."

It was a good year for NWB Bank. Could you tell us about a few of the milestones?

"There are many. First of all, of course, the record of €10.2 billion in lending in 2019. The sharp rise reflects our clients' increased financing needs. For example, the water authorities are investing more to cushion the effects of climate change, and housing associations are also investing in making their housing stock more sustainable. In addition, housing associations are building full steam ahead to address the scarcity in the housing market.

Another milestone is that over the past year we passed the €10 billion mark of sustainable bond issuance. We are the largest SRI (Socially Responsible Investing) bond issuer in the

Netherlands and we are also a global leader in this field. This reflects the impact of the bank's lending. Investors recognise our role and the high demand for our sustainable bonds enables us to finance ourselves even more inexpensively on the international capital market.

I would also like to mention the completion and entry into force of banking regulations in Europe. Last year, it was confirmed that a special definition of the leverage ratio applies to promotional banks such as NWB Bank. I see that as a milestone. Since 2010, we have been working with other European public sector banks to get that recognition and we have finally succeeded. So this is a good time to start paying dividends to our shareholders again.

Last year, we also officially joined PCAF, the Partnership for Carbon Accounting Financials, and signed the financial sector's commitment to the Climate Agreement. In line with this commitment, we wanted to be able to map our loan portfolio's climate impact in 2021, but we are ahead of schedule. Using the PCAF methodology, we have already mapped CO_2 *emissions for 93% of our lending portfolio.*

We also became a partner of the Aquathermal Energy Green Deal. This is a promising sustainable technique for generating heat from water. In the Green Deal, we contribute knowledge on governance and financing. These are very closely related and are essential for getting these kinds of projects off the ground.

Another milestone is the launch of the NWB portal in April. In this online environment, clients can view their entire loan portfolio, receive and exchange documents, and retrieve up-to-date market information. They can also easily generate reports and analyses regarding their financial position. We have made the portal available to all our clients free of charge, and more than half of them are now connected.

The last but equally important milestone I would like to mention is that we, as a bank, have been asked to set up a working group on biodiversity. This working group is part of the Dutch Central Bank's Sustainable Finance Platform and consists of representatives from the wider financial sector. I am personally committed to putting biodiversity on the map and believe that the financial sector should start to work on this issue. NWB Bank has been issuing Water Bonds since 2014, and one of the spending targets for the proceeds of these sustainable bonds is to protect and strengthen biodiversity. The quality of surface water is the responsibility of the water authorities, whereby the more nature does, the better."

Which projects or transactions made a lasting impression on you?

There were several special transactions in the past year. If I had to highlight a few, then I think the bank's year started nicely with the financing of Windpark Fryslân. We are part of a consortium of ten lenders, and the province of Friesland is also investing. This onshore wind farm will soon be able to supply 500,000 households with renewable energy. Another example I'm enthusiastic about is WarmteStad. We have provided financing of almost €35 million for the construction of a sustainable heat network in Groningen. In the future, this network will provide more than 10,000 (social) homes, businesses and institutions with affordable and sustainable heat. This project clearly brings together all of our client groups: a drinking water company, a municipality, a housing association and a water authority. Finally, I would like to mention the loan we provided to GVB Amsterdam to purchase new trams, underground trains and electric buses. And, of course, the bank's involvement in financing the Afsluitdijk, an icon of Dutch water management, cannot go unmentioned."

What were the challenges for the bank? And what are some of the issues that will require extra attention in 2020?

Over the past year, we have positioned ourselves more actively to the outside world, and we need to do this more internally as well. The bank is experiencing growth, which means that we need to involve our employees even more in our strategy and results. At the end of the day, it's all about our employees. They have to carry the strategy and communicate it. In concrete terms, this means that we will celebrate even more milestones with each other when excellent transactions are concluded and that we will also *quickly publicise this within the organisation. We want to involve our employees more in this process. We are going to improve our intranet and look at how we can communicate with each other even better internally."*

In 2018, NWB Bank indicated that it would actively seek cooperation with other parties. How did this materialise in the past year?

We entered into a partnership with various parties last year. A good example is the launch of the Nesec Shipping Debt Fund. Together with NN Investment Partners and the Ministry of Economic Affairs and Climate Policy, the bank has launched a financing fund to make shipping more sustainable. The fund will provide mortgage-backed loans for ships in the short sea sector, the most important segment in Dutch shipping. Dutch shipowners can use these loans to renew or adapt the fleet to meet new emission requirements in the areas of sulphur, ballast water and nitrogen, for example. Last year we also actively sought contact and cooperation with Invest-NL, which was officially launched in early 2020."

Another item on the agenda for 2019 was to get closely involved in the elaboration of the Climate Agreement. What steps has NWB Bank taken in this regard?

"Together with almost the entire Dutch financial sector, we signed the Climate Agreement. In doing so, we committed ourselves to reporting on the climate impact of our lending portfolio from 2020 onwards. We've already virtually succeeded in mapping our CO_2 impact this year! It now comes down to translating the data and detailing the steps that need to be taken as NWB Bank to contribute to the Paris targets. We're already working hard towards this goal by acting as a finance partner for making the Netherlands more sustainable. Our greatest impact will come through financing water authorities, housing associations and other clients. We also issue sustainable bonds, the proceeds of which can only be used for sustainable activities."

Which trends and market developments are emerging and how is NWB Bank responding to them?

Housing associations have started to invest more in making their housing stock more sustainable and are building full steam ahead to tackle the shortage in the housing market. The Social Housing Guarantee Fund (WSW) also anticipates an increase in the total financing requirement of housing associations. In addition, the water authorities have already indicated that they will invest more in climate mitigation and adaptation. This will involve an annual investment of at least €100 million, the majority of which will come from NWB Bank. Municipalities also need to invest. To be in a position to meet all these sustainable investments, we provide our customers with suitable financing on the most favourable terms possible."

The focus last year was on implementing the new strategy. What will the bank's main focus be in 2020?

We are now going to build on the strategy that has been put in place. As 'the sustainable water bank', we also want to look at how we can contribute to innovation and sustainable water projects. We are already doing so through the annual Water Innovation Prize, which we organise together with the Association of Dutch Water Authorities. We want to go a step further and are investigating the establishment of a Water Innovation Fund."

How was communication with the Supervisory Board last year?

"We clarified the strategic process these past two years and developed a new medium-term strategy with concrete goals. We are trying to respond to what is going on outside the bank in the public sector, and our board members are acting as advisers in that respect. Our Supervisory Board has a great deal of expertise in the many areas that affect the bank, and we make full use of that expertise. There is a good dialogue about the dilemmas and challenges we encounter in implementing the strategy. In my opinion, this works well for both the Executive Committee and the Supervisory Board."

Chairman of the Supervisory Board, Age Bakker, will retire in April. How has he contributed to what makes NWB Bank what it is today?

"One of the milestones under his chairmanship was the transition in 2014 from supervision under the Dutch Central Bank (DNB) to supervision under the European Central Bank (ECB). As chair, he played an important role in managing communication between the Supervisory Board and ECB. As a result of more intense supervision, he had to know even better what was going on in the bank, seek even more interaction with the Executive Committee and build up a relationship with the then-new supervisor in Frankfurt. He did an incredible job.

Furthermore, Age has played a prominent role in strengthening and consolidating ties with our shareholders, in particular with the water authorities. Partly as a result of his idea to visit one of the 21 water authorities each year, these ties have been strengthened. This was a brilliant move on his part. In our renewed strategy, we are looking even more to connect with our shareholders who are at the forefront of sustainability. He supports us tremendously and does so with great interest and dignity.

Finally, I would like to mention the strategy process. Together, the Executive Committee and the Supervisory Board have been able to shape it better. The interaction between the ExCo and Supervisory Board members has also improved; in addition to their supervisory role, they have been better able to fulfil their advisory role. We are therefore very grateful to Age for the important role he has played at NWB Bank over the years."

NWB BANK IN 2019

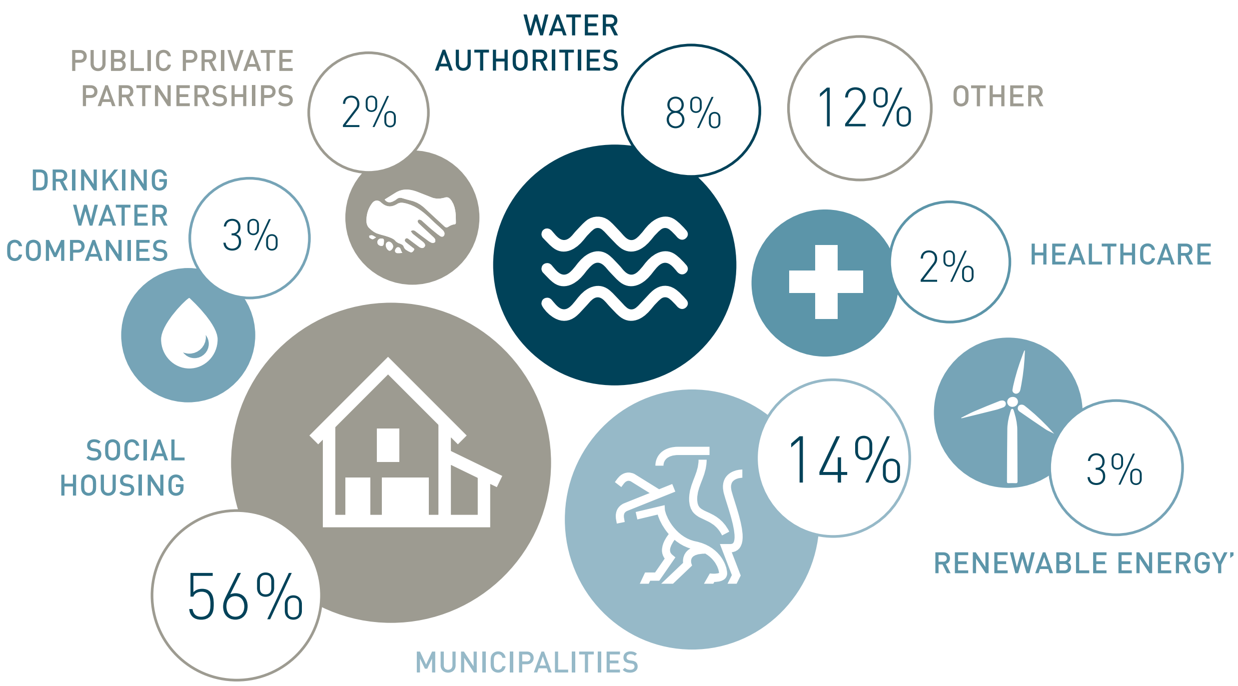
LENDING

In 2019, NWB Bank provided a record amount of new long-term lending to its clients: €10.2 billion. This includes interest rate resets for existing loans (€3 billion). In 2018, total lending amounted to €7.4 billion. The substantial rise is largely due to our clients having increased financing needs. In March 2019, for example, the water authorities announced that they would be investing an additional €100 million a year to cope with the consequences of climate change. Housing associations are also gradually increasing their investments. Among other things, they are investing in making their housing stock more sustainable and building full steam ahead to address the shortage on the housing market. The increase in lending is partly due to the acquisition of a portfolio of ABN AMRO loans to the Dutch public sector. The total size of the portfolio amounts to approximately €2 billion and consists of long-term loans to housing associations, municipalities, academic hospitals and drinking water companies. In 2019, €1.4 billion was acquired after €371 million had already been acquired in 2018. This means the portfolio has now been taken over almost entirely.

Thanks to the expansion of its lending, the bank has maintained its market share in the financing of the Dutch public sector. The bank has been able to strengthen its position in the public water sector, in particular by providing more financing to drinking water companies. The bank also successfully entered the market for financing renewable energy projects. These developments are a logical consequence of the roll-out of the 'sustainable water bank' strategy adopted in 2018. Prospects for further growth in these segments are good.

The illustration below shows a breakdown of lending volume by sector relative to the total volume of lending:

BREAKDOWN OF LENDING VOLUME IN 2019



FUNDING

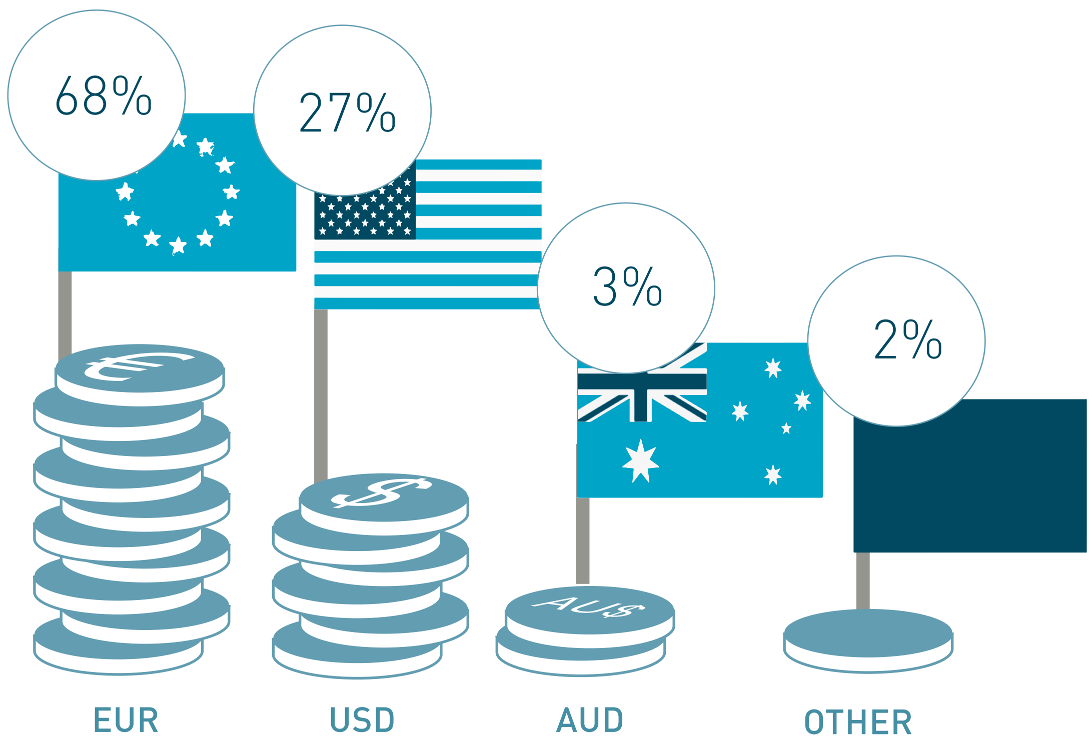
Long-term funding

To ensure it can provide long-term financing to its clients, NWB Bank raised a total of €9.9 billion (2018: €10.4 billion) in long-term funding on the international capital market in 2019. The funds are used both to finance the bank's activities and to refinance maturing loans. The average term of the funding raised is 7.6 years (2018: 8.4 years).

A significant portion of the long-term funding was again raised through the issuance of sustainable bonds. In 2019, NWB Bank raised a total of more than €2.5 billion in funding with SRI bonds (Socially Responsible Investing): €519 million with Water Bonds (Green Bonds) and €2,019 million with SDG Housing Bonds (Sustainable Bonds). In total, the bank has already raised more than €11 billion with its sustainable bonds. The amount of sustainable bonds as a percentage of the total amount of bonds on the bank's balance sheet was 20% at the end of 2019. Internationally, NWB Bank is a leading SRI bond issuer within the SSA group (Sovereigns, Supranationals and Agencies). In the Netherlands, the bank was even the first party to break the €10 billion mark on SRI bonds issued in 2019.

The bank can 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 in the context of its Quantitative Easing (QE) helps. The bonds issued by NWB Bank also qualify as High-Quality Liquid Assets (HQLA) and, as such, they can be used by other banks to meet the liquidity requirements under the Liquidity Coverage Ratio (LCR). Partly as a result of these factors, funding in euros and US dollars is attractively priced, and these currencies account for the largest portion of the funding. The combined share of the euro and US dollar is 85%.

FUNDING RAISED BY CURRENCY



As a result of sustained low interest rate levels, this year investors were again interested in longer maturities to avoid negative interest rates on their investments. As a result, the bank was once again able to issue euro-denominated long-term bonds at low spreads and to increase some outstanding long-term bonds. For the bank, this was in line with the long maturities of its lending.

Money market

To raise short-term funding in the money market, NWB Bank primarily issues commercial paper (CP). These are marketable 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 €52.7 billion was raised under the ECP programme in 2019 (2018: €53.9 billion) with maturities averaging 2.9 months (2018: 2.9 months), and under the USCP programme the equivalent of €73.7 billion (2018: €108.5 billion) was raised with maturities averaging 1.5 months (2018: 0.5 months). The figures stated are cumulative, since maturing commercial paper was refinanced over the course of the year. The average outstanding commercial paper amount at year-end 2019 was €15.7 billion (2018: €8.2 billion).

All money market funding was obtained, after conversion to euros, 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. This made it possible to maintain the favourable rates for a longer period.

FINANCIAL RESULTS

Net profit

NWB Bank's net profit was €94.5 million in 2019 (2018: €99.7 million). The bank's profit can again be described as healthy and is partly a result of the record lending volume. A one-off gain due to the release of part of the pension provision also contributed to this result. Nevertheless it was expected that the net profit would be lower than in 2018. This is mainly due to the composition and maturity of higher-yielding items in the loan and liquidity portfolio. Margins on short-term funding were also less favourable.

Net interest income

The expectation that the bank would benefit less in 2019 from the attractive rates, in particular for short-term funding in the market, has partly materialised. Despite the temporary suspension of the ECB's asset purchase programme, all money market funding continued to be conducted at negative effective interest rates in 2019. The final net interest income was €213 million, compared with €234 million in 2018.

Results from financial transactions

The result from financial transactions was €38.7 million negative in 2019 (2018: €48.3 million negative). These anticipated negative results are partly the result of an earlier restructuring of the swap portfolio. The bank restructured the portfolio several years ago to bring its interest rate risk position more in line with the benchmark return on equity. This will continue to have a negative impact on the results from financial transactions in the coming years. By contrast, as a result of the restructuring, net interest income is higher, so the impact on the net profit is limited.

Operating costs
In 2019, operating costs increased by approximately €5 million to €27 million (2018: €22 million). Operating expenses rose due to higher personnel, consultancy and supervision costs, among other things. The increase in costs is due to the bank's ambitions in the area of sustainability, the further diversification of lending and investments in digitisation. Nevertheless, the bank is managing to maintain its compact and efficient organisational model. At year-end 2019, the bank's workforce was 70, compared with 65 at year-end 2018. Supervision costs amounted to €3.3 million last year compared with €2.8 million in 2018. In addition, there was a release of the pension provision of €11 million as a result of the transition from a defined benefit scheme to a defined contribution scheme for active members. This has been accounted for as extraordinary income.

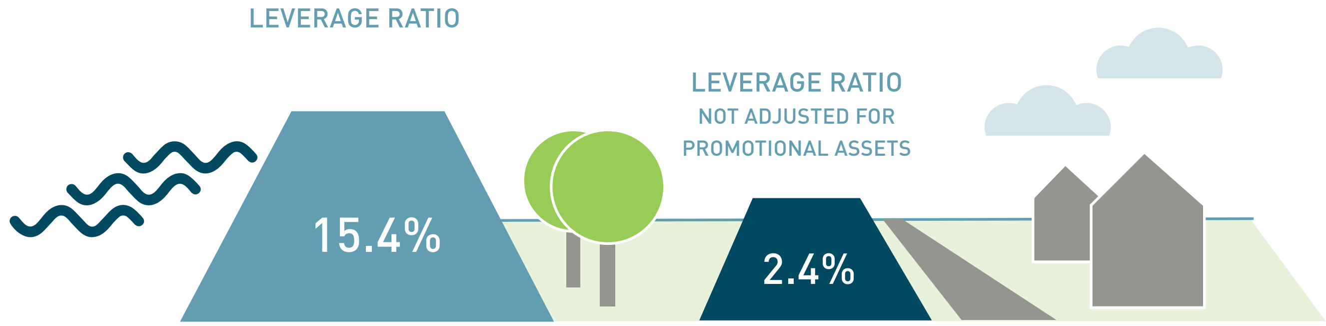
Bank tax and resolution levy
Bank tax amounted to €17.1 million (2018: €17.7 million). For the calculation of the 2019 bank tax, the balance sheet total at the end of 2018 was used as a benchmark. The resolution levy, as a separate category, is €5.3 million lower than last year's €9.7 million. In short, this decrease is due to the fact that the bank has agreed with the Single Resolution Board that, when calculating the basis of assessment for the levy, in addition to lending to the public sector, the related derivatives may also be deducted.

Balance sheet total
On 31 December 2019, the bank's balance sheet total was €96.2 billion compared with €83.7 billion at the end of 2018. At a total of €49.4 billion (nominal), the long-term lending portfolio makes up more than half of total assets. The remainder of the balance sheet consists of the liquidity buffer, liquidity portfolio and fair values in the bank's loan and derivatives portfolio. The increase in the balance sheet size is largely due to the further decline in capital market interest rates. As a result, the market values of the loan portfolio and the derivatives used by the bank to hedge interest rate and currency risks have risen.

Equity
At the end of 2019, the bank's equity totalled €1,741 million (including 2019 profit, excluding dividends) compared with €1,706 million at the end of 2018 (including 2018 profit, excluding dividends). The bank has agreed a benchmark target return on equity of 3.7% for 2019 with its shareholders. This benchmark target is based on the ten-year moving average of the interest rate on a ten-year Netherlands Government Bond, plus a spread appropriate to NWB Bank's risk profile. The return on equity for 2019 was 5.4%, which means NWB Bank has met the relevant benchmark for the target return on equity (2018: a return on equity of 5.9% compared with a benchmark target return of 4.1%).

The amount of hybrid capital (Additional Tier 1, AT1) remained the same in 2019 at €320 million. The bank issued several tranches of AT1 in 2015 and 2016 in view of the future leverage ratio requirement of 3%. At that time, there was no prospect yet of an adjusted definition of the leverage ratio for promotional banks. Following the announcement of the proposal for proportional application of the leverage ratio requirement for public development credit institutions in 2016, the bank decided not to further issue AT1.

Capital ratios
Tier 1 equity including hybrid capital stood at €2,010 million at year-end 2019 (excluding profit for 2019). The bank's total risk-weighted assets amounted to €3,275 million, compared with €2,627 million at the end of 2018. This increase is partly a direct consequence of the bank's strategy. The financing of renewable energy projects and the increased lending to drinking water companies contributed to an increase in risk-weighted assets, among other things. This is only partly offset by the decline in the NHG RMBS portfolio (Residential Mortgage-Backed Securities based on mortgages with a National Mortgage Guarantee) and the exposure to financial counterparties as a result of central clearing for interest rate derivatives. Due to the increase in risk-weighted assets, the Tier 1 ratio fell from 73.8% at year-end 2018 to 61.4% at year-end 2019. The Tier 1 core capital ratio

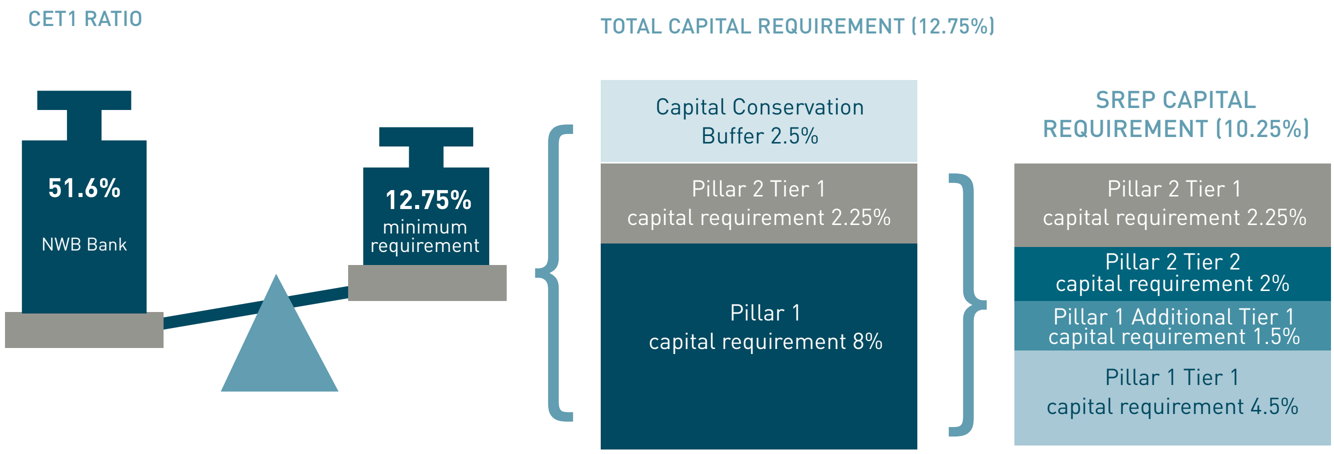


(CET 1 ratio) decreased from 61.6% at year-end 2018 to 51.6% at year-end 2019 (both excluding 2019 profit).

NWB Bank's capital ratios are well above the minimum requirement. This underlines NWB Bank's high creditworthiness and low risk profile. As part of the annual Supervisory Review and Evaluation Process (SREP), the ECB reassessed the capital requirement for NWB Bank last year. The requirement for the bank-specific Pillar 2 capital requirement remained unchanged at 2.25%. This requirement will apply from 1 January 2020. The total SREP capital requirement for NWB Bank amounts to 10.25%. This is the sum of the total Pillar 1 capital requirement of 8% and the Pillar 2 capital requirement of 2.25%. Together with the required capital conservation buffer of 2.5%, this brings the total capital requirement for the bank to 12.75%.

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 profile (expressed as risk-weighting) of the bank's assets is taken into the calculation.

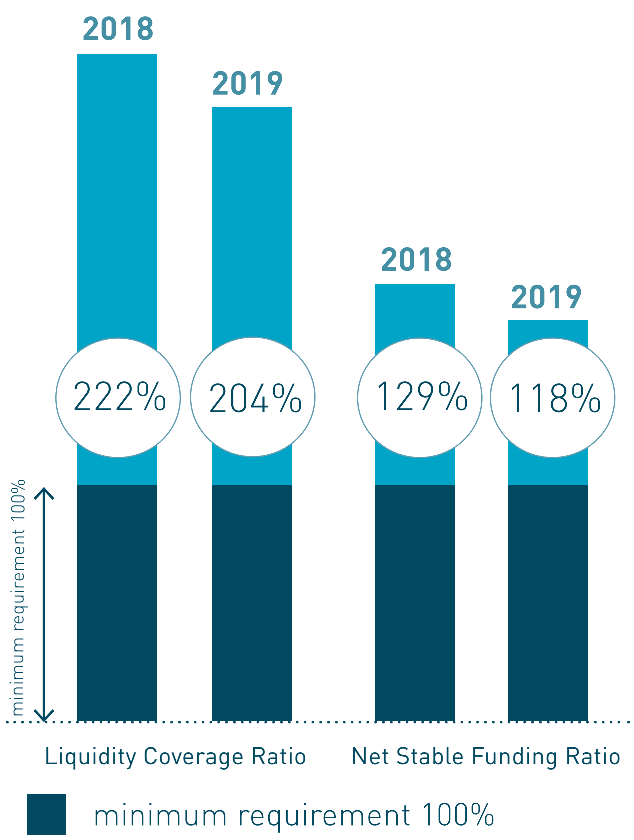
On 27 June 2019, the renewed European capital regulation CRR II entered into force. Part of this is an adjusted definition of the leverage ratio for promotional banks. In short, as a promotional bank, the bank may exclude lending to the public sector from the calculation of the leverage ratio. As a result, the leverage ratio (including profit for the current financial year) was 15.4% as at



31 December, which is well above the future minimum requirement of 3%. Without the aforementioned adjustment to the definition, the leverage ratio is 2.4% (2018: 2.6%). The decrease compared to 2018 is a direct consequence of the increased balance sheet total. Although the leverage ratio and the rest of CRR II have already entered into force, banks will only have to meet a minimum requirement of 3% in two years' time. The bank can comfortably meet these minimum requirements because of the amended definition in the regulation.

Liquidity ratios

In 2015, the Liquidity Coverage Ratio (LCR) was introduced as part of CRR/CRD IV. The LCR is designed to ensure institutions hold sufficient liquid assets to meet their estimated net cash outflows over a 30-day period of significant stress. At year-end 2019, the LCR stood at 204% (2018: 222%), well above the regulatory minimum of 100%.



With the introduction of CRR II/CRD V on 27 June 2019, the Net Stable Funding Ratio (NSFR) also entered into effect and like the leverage ration its enforcement will begin in two years . For NWB Bank, this NSFR stood at 118% at year-end 2019 (2018: 129%). That is also comfortably above the future minimum requirement of 100%. The NSFR is also a liquidity ratio and relates to the availability of liquid assets in the longer term. The internal liquidity requirements are in part determined using the Internal Liquidity Adequacy Assessment Process (ILAAP).

ORGANISATIONAL DEVELOPMENT

At the Annual General Meeting on 18 April 2019, the bank's Managing Board announced that it would resume dividend distribution. For the financial year 2018, €20 million in dividends was distributed to shareholders. The Managing Board was able to make this decision following the agreement by the legislative bodies in Brussels on the amended Capital Requirements Regulation.

NWB Bank's organisation continued to grow in 2019. This is a direct result of the bank's efforts in the area of sustainability, the further diversification of lending and investments in a professional and competent organisation. Nevertheless, the bank is managing to sustain its compact and efficient organisational model. At year-end 2019, the bank's workforce was 70, compared with 65 at year-end 2018.

Some of the priorities in internal operations in 2019 included the launch of NWB Portal, the organisation's focus on financing green NHG RMBS transactions, the further development of credit risk management (client scorecards) and the impact analysis of the IFRS 9 Expected Credit Loss model under NL GAAP for implementation on 1 January 2020.

Last year, NWB Bank began to chart the impact of its lending on the climate. In January 2019, the bank officially joined the Partnership for Carbon Accounting Financials (PCAF). Following on from this, in July the bank, along with virtually the entire financial sector, committed itself to the government's climate goals. In doing so, NWB Bank is committed to reporting on the climate impact of its lending portfolio from the 2020 financial year onwards. By late 2019, the bank had already charted the CO_2 impact of 93% of its credit portfolio.

TRENDS AND DEVELOPMENTS IN 2019

The Dutch economy's long period of growth continued in 2019, albeit at a slower rate than in 2017 and 2018. The slower economic growth is mainly due to international developments, which slowed down Dutch exports. Internationally, many uncertainties affected the Dutch and European economies. For example, the risk of a 'hard' Brexit threatened the market for a long time, and trade tensions between the US and China continued in 2019.

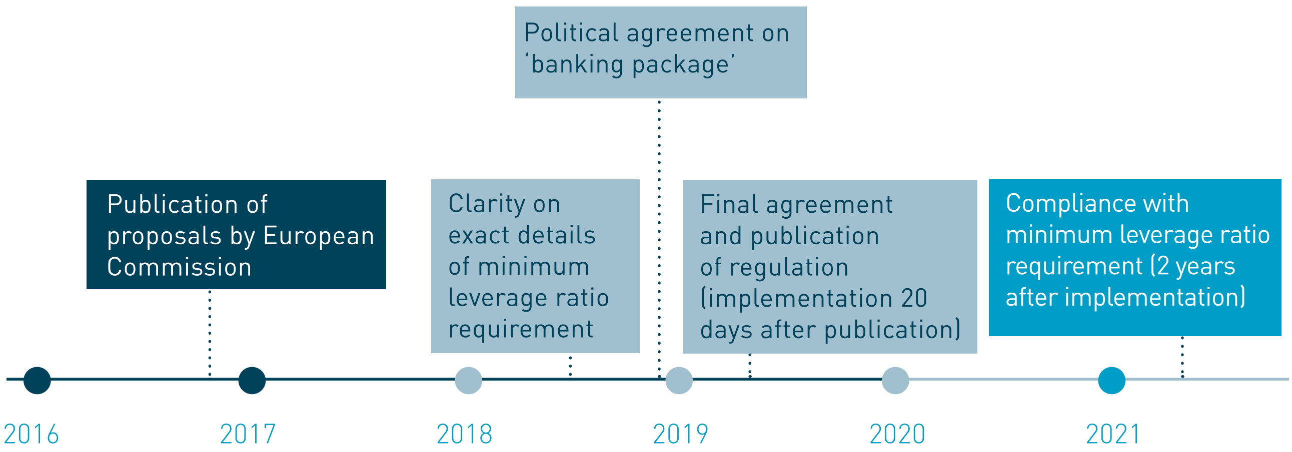
Against the background of continuing low inflation and its ensuing outlook, the ECB decided in September to cut interest rates further and resume the previously halted asset purchase programme as of 1 November. Since then, €20 billion worth of bonds have been bought every month. In its own words, the ECB expects net asset purchases to run 'as long as necessary'. As an extra boost to the economy, the ECB had previously announced that banks would be able to borrow money on especially favourable terms from the ECB against collateral from September. They will then have to lend it out to companies and private parties. As a result of the low inflation expectations and the ECB's policy, money and capital market interest rates continued to fall during much of last year. In August, new historically low levels were reached with short-term negative interest rates for the very long maturities. Since then, interest rates have risen slightly.

To promote the development of a robust green capital market, the Dutch State issued its first Green Bond in May. The issuance was a great success, underscoring investors' need for sustainable investments. In total, the State raised almost €6 billion, and these proceeds will be used for sustainable projects in the national budget. NWB Bank has been issuing Green Bonds since 2014 and in May became the first Dutch issuer to break the €10 billion mark in sustainable bonds issued. In the coming years, the government will also increase its investments to accelerate sustainability efforts.

In late June, the government published the National Climate Agreement, which states that greenhouse gas emissions must be reduced by 49% by 2030 compared with 1990 levels. The National Climate Agreement affects all sectors of the Dutch economy and society and calls for broad support and effective cooperation from all involved parties and stakeholders. NWB Bank, together with the rest of the financial sector, has therefore endorsed the objectives of the National Climate Agreement. For the first time, the bank is reporting on the climate impact of its financing for the year under review, 2019. The next step will be for NWB Bank to announce its targets for reducing CO_2 emissions from its financing.

Clients and shareholders of NWB Bank are already making a huge effort to enhance sustainability in practice. The water authorities, for example, are front runners in restricting their energy consumption, self-generating sustainable energy and recovering raw materials from wastewater. They are on schedule to be fully energy-neutral by 2025. According to the Water Authorities' Climate Monitor, they are well on track. NWB Bank is one of the parties that commissions this annual survey of the results achieved by the water authorities in the area of energy and climate. Housing associations are also expected to play a leading role in efforts to make the built environment more sustainable. NWB Bank provides appropriate financing to clients at the lowest possible cost to enable them to achieve their objectives as effectively as possible. Indeed, the bank has expanded its product portfolio to address its clients' financing needs even more effectively.

TIMELINE OF LEVERAGE RATIO REQUIREMENT



STRATEGY AND VALUE CREATION

MISSION

As a robust and sustainable bank for the public sector, it is NWB Bank's mission to help its clients create added value for society. The social and sustainable investment agenda of the Dutch public sector 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, who play an important role in the energy transition. Another important group of clients, namely housing associations, are also expected to play a leading role in making the Netherlands more sustainable. About 30% of the housing stock in the Netherlands is social housing, and in the coming years, housing associations plan to invest heavily in climate-neutral new-build social housing, in making homes more energy-efficient and in keeping rents low.

VISION

As an efficient and socially committed bank, NWB Bank wants to respond to the changing needs of its clients. By offering them appropriate financing on the most favourable terms possible, the bank helps to alleviate the financial burden on citizens and minimise the costs for enhancing sustainability in the Netherlands. Ever since it was founded in 1954, NWB Bank has focused its strategy primarily on catering efficiently to the combined financing needs of its clients in the public sector. As a cost-conscious organisation, the bank uses its AAA/Aaa ratings to raise funds in an inexpensive and sustainable way.

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 several framework conditions within which the bank must operate 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 its status as a promotional bank, which under European regulations means at least 90% of its total lending must qualify as what is defined as promotional lending. Together with the high credit ratings, this status is vital to the bank's business model. The bank has a low risk appetite, which translates into a high risk-weighted capital ratio. In addition to the statutory anchoring, this requires that the bank's activities are clearly linked to the public sector and identifiable as such by shareholders, rating agencies and investors. In practice, this implies that the bulk of the loan portfolio comprises loans to Dutch (local and regional) authorities or loans guaranteed by these government bodies. Finally, the strategy calls for an organisation that is equipped to handle new and existing tasks, both on a commercial level and in the area of risk management

Medium term

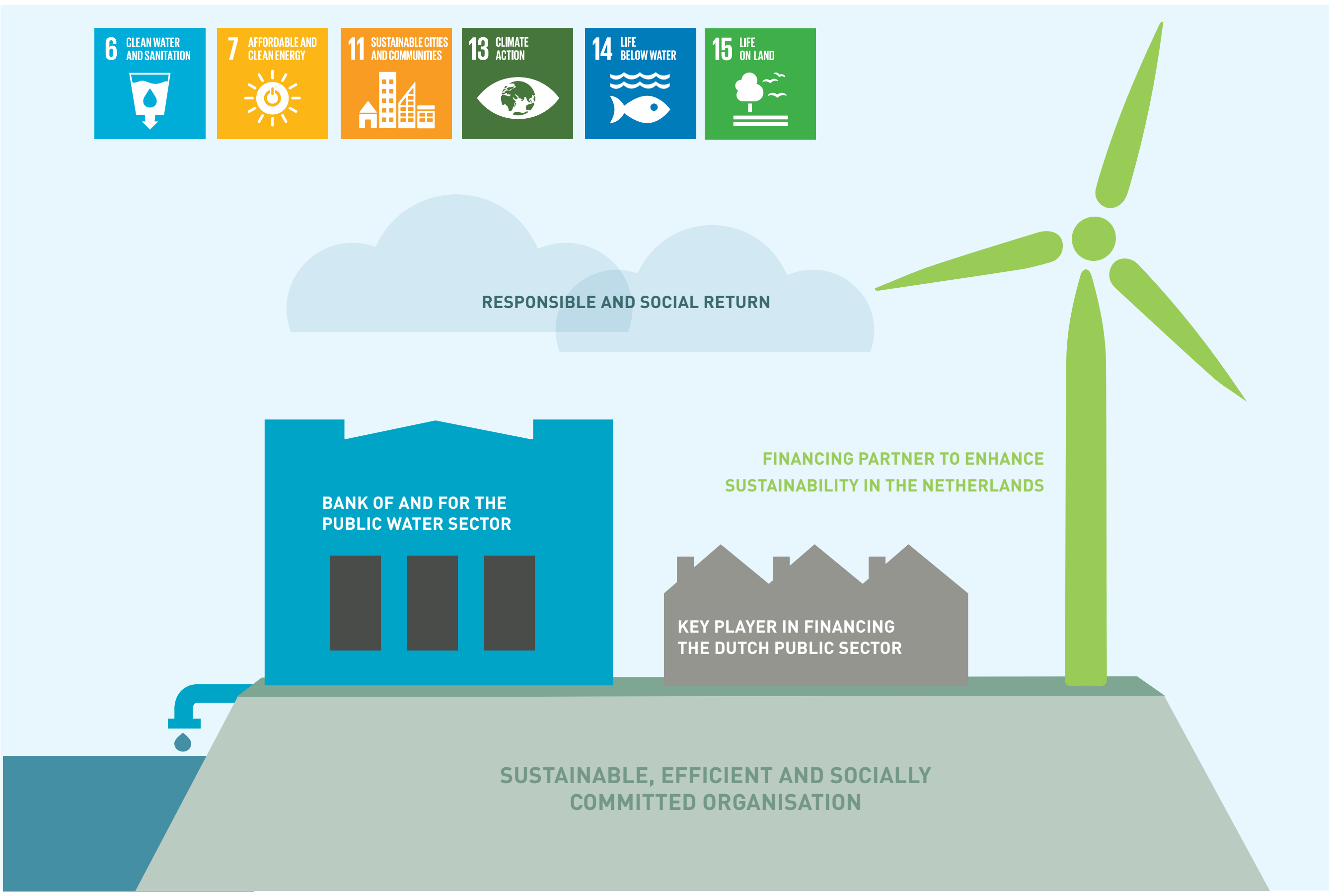
In 2018, the Executive Committee reassessed the strategy for the medium term within the strategic framework in liaison with the Supervisory Board and stakeholders of the bank. The process led to the formulation of specific targets for 2019-2023. NWB Bank's strategy consists of three pillars:

1. NWB Bank is the **bank of and for the public water sector**. The bank is the principal bank for the water authorities and, in providing financing to these shareholders, aims for the largest possible market share in this sector. Drinking water companies are long-standing clients of the bank, which perfectly reflects its profile as 'the sustainable water bank'. One of NWB Bank's main priorities in financing these clients and shareholders is to help them achieve their sustainability objectives. Indeed, innovation is a major catalyst for enhancing sustainability. In consultation with its clients, the bank will broaden its options to support them in this process.

2. NWB Bank is a **key player in financing the Dutch public sector**. The bank finances municipalities and provinces, as well as institutions guaranteed by local and regional governments, such as housing associations or healthcare institutions. It is

constantly seeking to extend its role as a bank for the Dutch public sector and has broadened its lending policy and product range over the years. For instance, NWB Bank has been financing public-private partnership (PPP) projects for several years. The bank also 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, NWB Bank provided a total of more than €65 billion in long-term funding.
NWB Bank is aiming for a substantial market share, and with total assets of almost €100 billion, it is a sizeable player in the Dutch banking landscape. Particularly in the public sector, the bank contributes to a financially healthy, social and innovative playing field in which public funds are handled efficiently and effectively.

3. The bank sees itself as a **financing partner for enhancing sustainability in the Netherlands**. The transition to a climate-neutral, circular economy will require major investments in the Netherlands in the decades ahead. NWB Bank's contribution will be to provide appropriate financing at a low cost. The bank is an active player in the market for the direct financing of renewable energy projects and plans to expand these activities in the coming years. Investments in Green NHG RMBS (Residential Mortgage-Backed Securities) are another example of the bank's aim to accelerate the energy transition. By financing these securitised mortgages, the bank wants to lower mortgage costs for owners of sustainable homes covered by the National Mortgage Guarantee scheme or homes due to be made more sustainable. Major steps and investments are expected to come mainly from provisions in 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 ensuring a 95% reduction of CO_2 emissions in the Netherlands by 2050 compared with 1990. In addition, the bank is seeking collaboration with Invest-NL, which was established in January 2020 to help provide the aforementioned social transition with risk-bearing capital.

NWB Bank is a **sustainable, efficient and socially committed organisation**, and these values are the foundation of the bank's strategy. NWB Bank is highly cost-efficient and one of the best capitalised banks (on a risk-weighted basis) supervised by the European Central Bank. This means not only a low cost/income ratio, but also a certain degree of flexibility. On the one hand, the diversification of lending and the increasing demands being placed on banks will require further investments in knowledge, personnel and systems. On the other hand, with about 70 employees, the bank is highly cost-efficient. The bank is keen to set a good example in terms of sustainability. Indeed, it has only purchased zero-emission cars for its fleet since 2019. In addition, it has taken steps to obtain energy label A for its office in the years ahead.

A responsible and social return is one of the key drivers of the bank's strategy. As a promotional bank, it 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. The bank also focuses strongly on the social return of its lending. All of NWB Bank's efforts are about creating long-term added social value, which is often difficult to express in monetary terms.

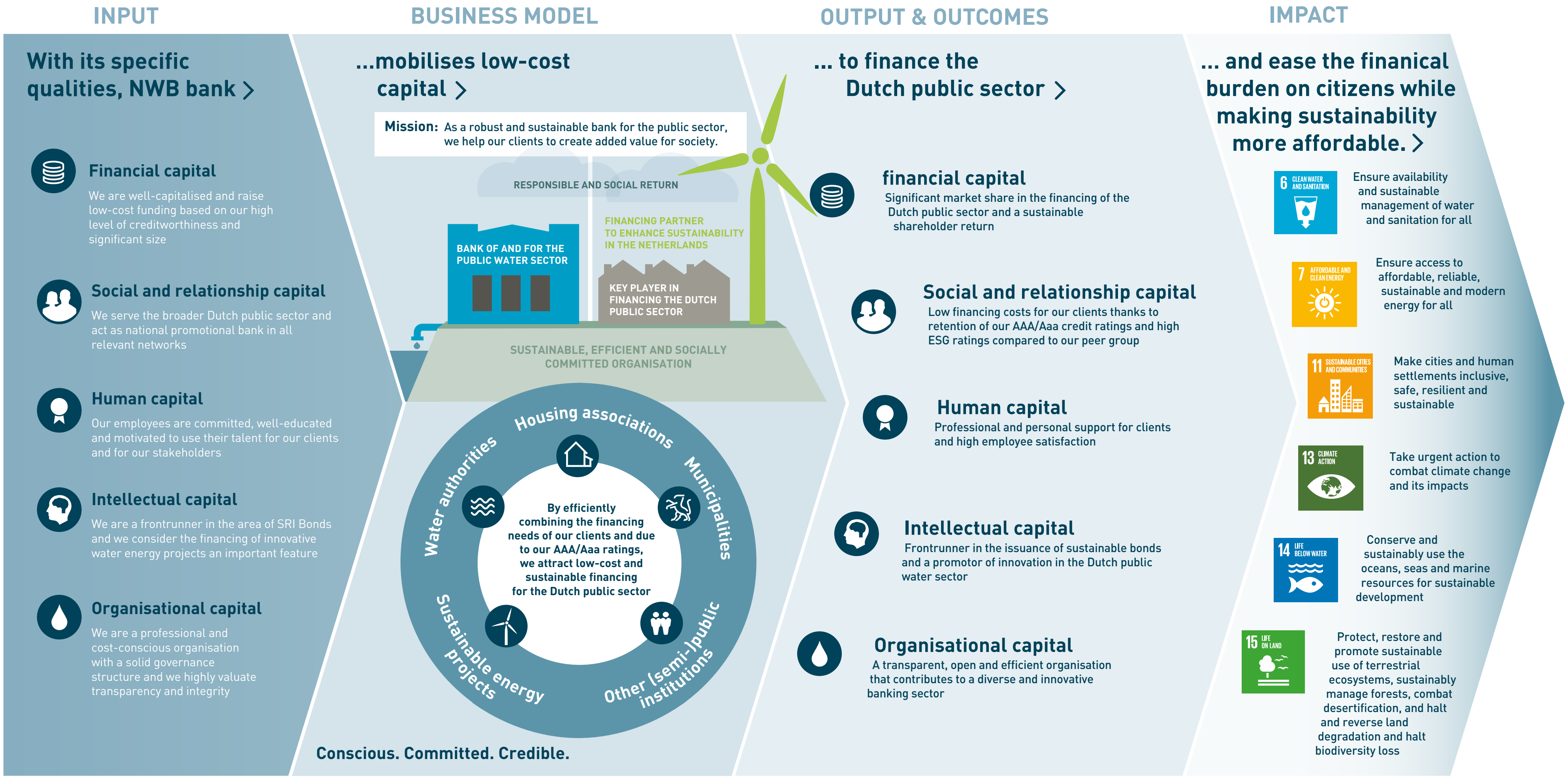
CORE VALUES

NWB Bank can effectively fulfil its societal duties only if its clients as well as society are confident about the organisation and integrity of the bank's dealings. To this end, '**conscious, committed and credible**' are and will remain NWB Bank's core values. The bank expects its employees to promote these core values as they perform their duties. Moreover, NWB Bank depends almost entirely on the international money and capital markets for its funding requirements. In addition to high credit ratings, which are reflected by AAA/Aaa ratings equal to those of the Dutch State, integrity and the transparent provision of information are also essential in that respect, not only to investors but also to all of the bank's other stakeholders.

VALUE CREATION

The value NWB Bank adds to society can be illustrated using a value creation model. The bank uses the model to show how it harnesses all available resources (input) to create value for its clients, shareholders and other stakeholders (output). The bank uses the capital at its disposal as efficiently and effectively as possible. Ultimately, everything comes down to the short- and long-term impact the bank and its activities have on society. The bank achieves its greatest impact by providing appropriate funding and transferring knowledge and information.

Value creation model



NWB Bank has embraced the Sustainable Development Goals (SDGs).[1] In consultation with its stakeholders, the bank has selected six relevant SDGs. These are logically also the goals through which the bank has the most impact.

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

NWB Bank is *the* sustainable water bank and the main financer of the Dutch public water sector. The bank's activities focus particularly on initiatives that contribute to water management and quality. In a country that is largely below sea level, and in the context of climate change, good water management is indispensable. Over the centuries, the Dutch and the water authorities have built up a great deal of knowledge and experience in this field. To support the water authorities in sharing their expertise, the bank set up the NWB Fund in 2006. This fund co-finances international cooperation projects of the water authorities that help to solve global water issues. NWB Bank is also a major financer of the Dutch drinking water sector. The main task of these water companies is to provide consumers and companies with high-quality and sufficient drinking water.

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

Since 2019, NWB Bank has been providing direct financing to renewable energy and infrastructure projects. Government institutions and companies that have received a so-called Stimulation of Sustainable Energy Production (SDE+) grant can turn to the bank for (project) financing. Examples include solar parks and onshore wind farms, but also aquathermal energy and district heating.

Also, when financing other clients, such as water authorities and social housing associations, NWB Bank is mindful of their climate adaptation and mitigation activities, as well as the joint ambition to establish a circular economy. The water authorities intend to produce 40% of their own energy demand in 2020 and to be 100% energy-neutral by 2025. According to the Climate Monitor, they are well on schedule.[2] NWB Bank is one of the parties that commissions this annual survey. The housing associations own approximately 30% of the total housing stock in the Netherlands. They are doing a great deal to increase sustainability and their efforts are paying off. The sector has the lowest number of homes with energy label G. The average Energy Index (EI) fell sharply from 1.73 in

1) 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.
2) The Water Authorities' Climate Monitor 2018.

2017 to 1.65 in 2019. As a result, housing associations will be able to achieve label B in 2021, as agreed in the Energy Agreement that preceded the Climate Agreement.[3)]

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

NWB Bank finances one out of ten houses in the Netherlands. Housing associations own approximately 30% of the total housing stock in the Netherlands and the bank meets about one-third of the associations' financing needs. To increase its impact in the sector, NWB Bank has been issuing Social Bonds (Affordable Housing Bond) at least once a year since 2017. The proceeds of these Social Bonds are used to finance social housing in the Netherlands. These loans help housing associations develop, maintain and improve their housing stock. In 2019, NWB Bank rebranded the Affordable Housing Bonds into SDG Housing Bonds. The proceeds of these bonds can now be used to make social housing more sustainable, in addition to maintaining affordable rent levels.

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

NWB Bank has been issuing Water Bonds since 2014. The proceeds of these Green Bonds are exclusively used for loans to the Dutch water authorities. The water authorities are responsible for flood protection, water management and water quality. Climate change adaptation is one of their key focus areas. A substantial portion of future investments in flood control and water management will be made under the umbrella of the Dutch Delta Plan, a plan set up by the Dutch government to adapt Dutch flood protection and water management schemes to expected climate change impacts in the coming decades. Heavier rainfall patterns and longer periods of drought are examples of potential impacts.

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. One of the water authorities' core tasks is to achieve clean and ecologically healthy surface water. They are aiming not only to obtain optimum water quality for water users (such as the agricultural sector, drinking water companies and the recreation sector) 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 and therefore one of the tasks that the proceeds of the Water Bonds can be put towards.

NWB BANK | SUSTAINABLE DEVELOPMENT GOALS

6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY | 11 SUSTAINABLE CITIES AND COMMUNITIES | 13 CLIMATE ACTION | 14 BELOW WATER | 15 LIFE ON LAND

3) State of Public Housing 2019.

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

The water authorities' activities affect biodiversity not only in the water, but also on land. Managing and maintaining the water system means dealing with nature legislation, which is largely laid down in the Nature Conservation Act. The 'species protection' section of this Act monitors the sustainable conservation of animal and plant species in the Netherlands. The water authorities have drawn up a code of conduct for this Act specifying that the water authorities must be diligent in the way they handle nature conservation.

There is a growing awareness in the financial sector that biodiversity, just like the climate, is of crucial importance. Led by Lidwin van Velden, the chair of NWB Bank's Managing Board and Executive Committee, a working group is focusing on this issue. This working group was established by DNB's Sustainable Finance Platform and consists of representatives from the broader financial sector. The working group is identifying the challenges related to biodiversity and developing a sector-wide approach to the problem.

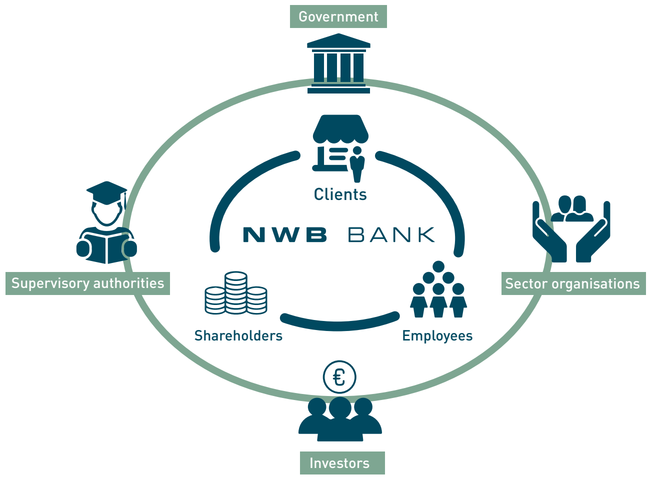
MANAGEMENT APPROACH

At the tactical and operational level, the bank's strategy and medium-term strategic goals are incorporated into the annual plans. Specific sustainability objectives are part of these plans. The strategic goals and the annual plans are laid out by the Executive Committee in liaison with the management team and the Supervisory Board. They are then translated into the objectives of the relevant departments and staff members. Sustainability plays a leading role in that respect, in terms of the bank's wider goals as well as individual objectives.

The bank has a Corporate Social Responsibility (CSR) Committee, whose 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 bank's website. Employees from various departments and a member of 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 evaluating the sustainability aspects of business operations. 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 to grant a loan.

The bank has created the position of sustainability officer to further professionalise the internal organisation in terms of sustainability and improve the way the bank communicates its sustainability strategy to the outside world. This person's tasks include, among other things, monitoring and calling attention to developments that are relevant to the bank in the area of sustainability, stakeholder management and reporting. This additional capacity and the cooperation with the front office will result in an even greater emphasis on sustainability in our market approach.

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



STAKEHOLDER DIALOGUE

NWB Banks counts among its stakeholders all individuals and organisations that work with the bank and attach importance to its social role. The bank sees its shareholders, clients, investors, employees, supervisory authorities and the government as stakeholders as well. NWB Bank communicates with its stakeholders regularly 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 constantly in contact with stakeholders about the matters for which they are responsible.

Shareholders

The composition of the bank's shareholders is fixed and limited in number. Consequently, 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 at the bank itself. Regular topics include corporate governance and laws and regulations, as well as the bank's role in enhancing sustainability in the Netherlands, for example. The bank also has regular, less formal discussions with its shareholders.

Clients

NWB Bank has about 1,000 clients. The bank seeks to establish a long-term relationship with its clients that, where possible, goes beyond lending alone. All of the bank's clients are part of or operate in the Dutch public sector and therefore have a great sense of social responsibility. Many of the bank's client groups (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 is also in regular contact with sector organisations, guarantee funds and the relevant supervisory and/or policymaking ministries.

The bank regularly organises events for client groups. 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 interest to clients. The agenda for client events is drawn up partly based on client input. The positive feedback is a confirmation that client events address a real need. NWB Bank also participates in client network meetings, regional consultations, symposia and thematic meetings.

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 2019.

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 issuing SRI Bonds in the form of Water Bonds and Affordable and SDG Housing Bonds since 2014.

The members of the Executive Committee and treasury department 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 and find out what investors consider important. Since the bank has been issuing SRI Bonds, it is increasingly common for the bank to invite investors to come to the Netherlands to visit sustainable and social projects that are financed with the funds they provided.

NWB Bank seeks dialogue with investors on sustainability. For their part, investors keep the bank on its toes, deploying research and ESG rating agencies to assess its sustainability 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 for improvement regarding its CSR policy.

Employees

NWB Bank's Executive Committee promotes open dialogue among its employees as well as between employees and the Executive Committee. The bank highly values its informal and open culture. Indeed, the Executive Committee's door is always open, literally and figuratively. The Works Council is the official consultative body between the Managing Board and employees. The Managing Board consulted the Works Council twice in the past year, and the subjects discussed included a new pension scheme. Members of the Supervisory Board also regularly attend the Works Council's meetings.

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. Five such sessions took place in 2019, when subjects such as integrity, virtual reality and the NWB Fund were discussed. The 'brown bag sessions' at the bank are the initiative of NWB Young Professionals. The Executive Committee has lunch with this group at least once a year to get an idea of the issues that concern them.

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 at 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. No one used the whistleblower scheme last year.

Supervisory authorities and sector organisations

NWB Bank's Executive Committee and employees consult the supervisory authorities regularly. The bank is subject to the supervision of the ECB/DNB and the Netherlands Authority for the Financial Markets (AFM). The supervisory authorities are requiring financial institutions to devote more attention to sustainability and are emphasising the climate-related financial risks these 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 public sector, which is why it enjoys good relationships with local authorities and the central government. NWB Bank regularly participates in meetings with various relevant Dutch government ministries, 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.

As an institution with a banking licence, NWB Bank is subject to specific laws and regulations such as the prudential rules regarding 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 desired, this will be done in cooperation with other banks, including through the Dutch Banking Association (Nederlandse Vereniging van Banken) and the European Association of Public Banks.

MATERIALITY ANALYSIS

Each year, NWB Bank determines which material topics it will report on in its annual report.[1] Identifying these topics and the overarching (strategic) themes form the basis of the content of this report of the Managing Board. To determine whether a topic is relevant and material enough to report on, the perspective of the stakeholders and that of the bank are taken into account.

In 2018, the CSR Committee made an entirely new inventory and analysis of material topics. These topics were identified based on discussions with stakeholders, desk research and comparisons with similar banks. After first compiling a long list of subjects, this was reduced to a shortlist of 20 topics based on an assessment of relevance to stakeholders. These topics were then ranked based on an assessment of the impact the bank believes it may have and the importance stakeholders attach to the topics.

Last year, this list of material topics was updated by the CSR Committee and the Executive Committee based on discussions with stakeholders. The following material topics were added: 'Facilitating renewable energy projects' and 'Facilitating reliable drinking water'. This is a logical consequence of the strategy adopted by the bank in 2018 and implemented in 2019. Of course, its importance and the demand for these services from clients also increased significantly in 2019. Furthermore, 'Facilitating affordable social housing' and 'Facilitating sustainable housing' have been merged into one topic: 'Facilitating sustainable and affordable social housing'. This is also more in line with the rebranding of the Affordable Housing Bonds into the SDG Housing Bonds, which has deliberately created scope to use the proceeds of these bonds to make social housing more sustainable. The number of material topics ultimately increased by one. The Executive Committee and the CSR Committee have also agreed to take another critical look at the relative impact of the topics in the light of current developments and based on discussions with stakeholders. 'Appropriate risk profile' has increased in importance as a topic, partly due to the increase in the financing of renewable energy projects. 'Availability of financing' also became more relevant. Finally, in several cases the Key Performance Indicators (KPIs) associated with the various topics have also been made more specific and, where possible, more measurable.

Material Topics Plot

The Material Topics Plot below displays all 22 topics material to NWB Bank. The x axis shows the impact on society that NWB Bank thinks it may have regarding these topics. The y axis shows how much importance NWB Bank believes stakeholders may attach to these topics. The topics at the top right have the most impact. The top seven are elaborated in the **GRI Index (see page 191)**.

1) The use of material themes stems from NWB Bank's application of the GRI Sustainability Reporting Standards. NWB Bank bases its reporting in its annual report on so-called Universal Standards, as well as on specific standards relating to topics classified as material. Part of the Universal Standards is to make clear which topics are of material importance to the bank.

MATERIAL TOPICS PLOT

	Ranking	Material topics	Strategic themes
1	1	Facilitating water safety, climate mitigation and biodiversity among water authorities	Bank of and for the public water sector
2	10	Facilitating reliable drinking water	
3	10	Supporting innovation in the public water sector	
4	2	Facilitating affordable and sustainable social housing	Key player in financing the Dutch public sector
5	3	Availability of financing	
6	4	Providing financing at the lowest possible cost	
7	8	Client focus and comprehensible and appropriate products	
8	5	Facilitating renewable energy projects	Financing partner for sustainability enhancement in the Netherlands
9	7	Sustainable funding	
10	13	Charting the climate impact of financing	
11	6	Financially stable bank	Sustainable, efficient and socially committed organisation
12	8	Appropriate risk profile	
13	22	Sustainable business practices	
14	20	Social involvement	
15	21	Diversity of employees	
16	14	Integrity	
17	17	Sustainable employability of employees	
18	17	Responsible remuneration policy	
19	19	Digitisation of services and business operations	
20	10	Cybersecurity and client data protection	
21	16	Healthy operating profit	Responsible and social return
22	15	Shareholder return	

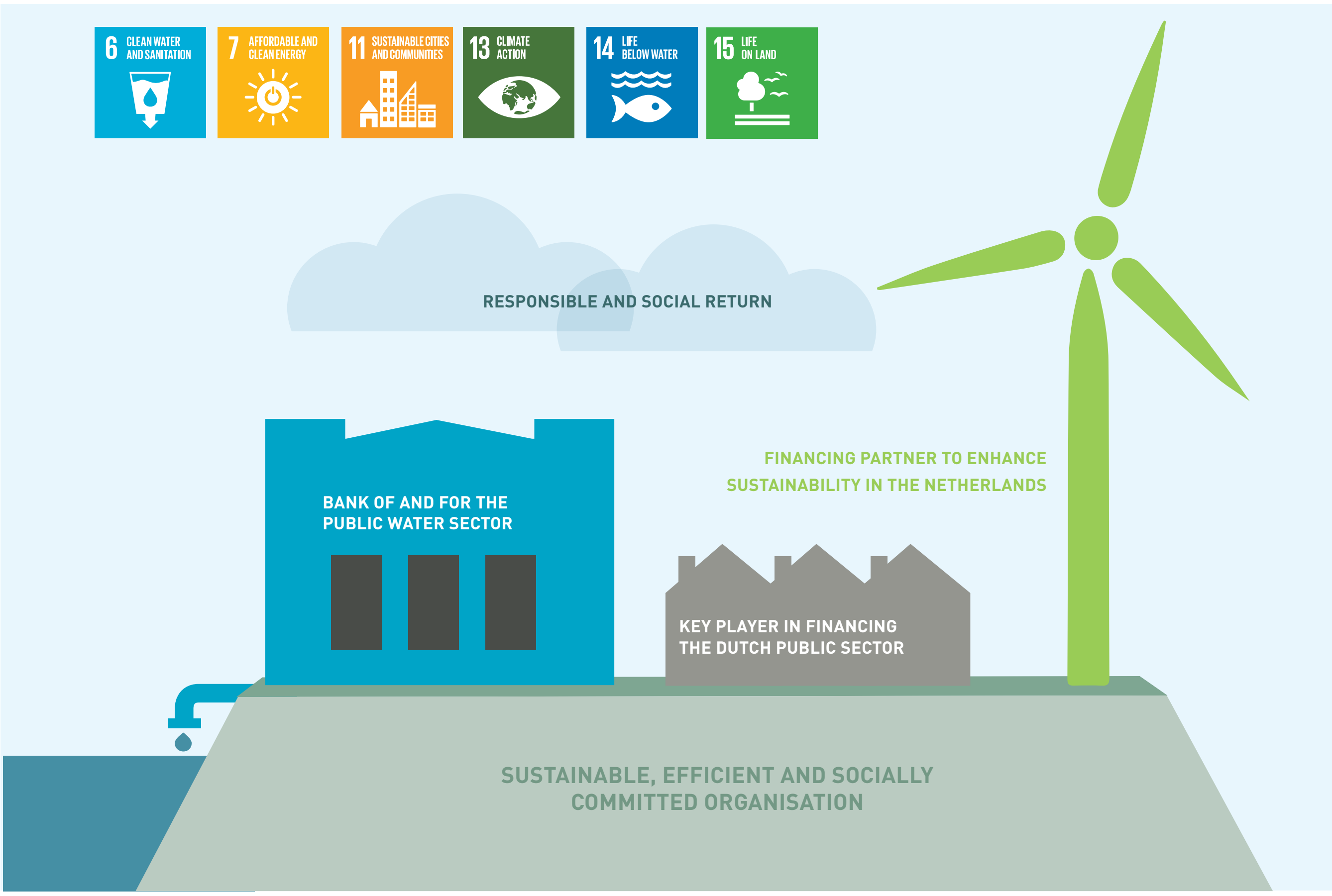
THE SUSTAINABLE WATER BANK: RESULTS AND ACTIVITIES IN 2019

Sustainable business practices are in NWB Bank's DNA. Since all its clients and shareholders are public sector entities, NWB Bank as a bank of and for the Dutch public sector inherently has different values from strictly commercial banks. These values are reflected in the bank's strategy and how the bank has designed its internal organisation. This chapter uses the five strategic themes to explain the activities and results of NWB Bank in 2019 and how they have contributed to sustainable long-term value creation.

FIVE STRATEGIC THEMES

NWB Bank's strategy was explained earlier in this management report. It can be divided into five themes: three pillars, a foundation and a keystone.

The pillars of the strategy are 'Bank of and for the public water sector', 'Key player in financing the Dutch public sector', and 'Financing partner to enhance sustainability in the Netherlands'. These are all related to the bank's lending activities. NWB Bank makes the greatest impact through its clients. The foundation is NWB Bank's identity as a 'sustainable, efficient and socially committed



organisation'. This theme is related to the bank's internal organisation. Like its clients, the bank wants to set a good example when it comes to sustainable entrepreneurship. The keystone rests on the aim to generate 'responsible and social returns'.

The five strategic themes also form the clusters of a list of topics that the bank and its stakeholders consider material. Reporting on these themes and the related material topics forms the basis of the content of this section of the management report. For each material topic, the report indicates how the bank's strategy and policy have been implemented sustainably and what results have been achieved. One or more Key Performance Indicators (KPIs) have been devised for each material subject. As far as possible, these performance indicators are quantitative, so that the results are measurable, transparent and easily comparable.

How these strategic themes, material topics and KPIs are connected is illustrated in the connectivity table on the next page.

CONNECTIVITY TABLE

	Material topics	Ranking	Strategic themes	Key performance indicator	Result 2019	Impact on SDGs
1	Facilitating water safety, climate mitigation and biodiversity among water authorities	1	Bank of and for the public water sector	Volume of new lending to water authorities Volume of newly issued Water Bonds	€817 million €519 million	6 CLEAN WATER AND SANITATION 14 LIFE BELOW WATER 13 CLIMATE ACTION 15 LIFE ON LAND
2	Facilitating reliable drinking water	10		Volume of new lending to drinking water companies	€304 million	
3	Supporting innovation in the public water sector	10		Number of new loans for innovation in the public water sector	-	
4	Facilitating affordable and sustainable social housing	2	Key player in financing the Dutch public sector	Volume of new lending to housing associations Volume of newly issued Affordable and SDG Housing Bonds	€5.8 billion €2 billion	11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION
5	Availability of financing	3		Total volume of new lending	€10.2 billion	
6	Providing financing at the lowest possible cost	4		Credit spread on Netherlands 10Y Government Bond	15 basis points	
7	Client focus and comprehensible and appropriate products	8		Implementation of an internal product approval and review process for new products/markets	-	
8	Facilitating renewable energy projects	5	Financing partner for enhancing sustainability in the Netherlands	Volume of new lending to renewable energy projects	€294 million	7 AFFORDABLE AND CLEAN ENERGY 14 LIFE BELOW WATER 13 CLIMATE ACTION 15 LIFE ON LAND
9	Sustainable funding	7		Volume of sustainable funding as % of new funding	26%	
10	Charting the climate impact of financing	13		% of loan portfolio, the climate impact of which has been charted	93%	

11	Financially stable bank	6	Sustainable, efficient and socially committed organisation	Financial ratios	Tier 1-ratio: 61.4% CET 1-ratio: 51.6% Leverage ratio: 15.4% LCR: 204% NSFR: 118%
12	Appropriate risk profile	8		Credit ratings	S&P: AAA Moody's: Aaa
				ESG ratings	Imug: BB MSCI: BBB Sustainalytics: 68 ISS ESG: B- Vigeo Eiris: 57
13	Sustainable business practices	22		CO_2 emissions generated by business operations	2.8 ton per employee
14	Social involvement	20		Internships filled	2
				% of sponsor budget spent	>100%
15	Diversity of employees	21		Male-female ratio	65% male 35% female
				Average age of employees	45 years
16	Integrity	14		Number of complaints	0
				Number of reports of bribery and corruption	0
17	Sustainable employability of employees	17		Number of vacancies filled internally	2
				% of training budget spent	89%
				% of sickness absence	1.8%
18	Responsible remuneration	17		Remuneration ratio of chair of Managing Board and median of employees	3.8
19	Digitisation of services and business operations	19		% of clients on client portal	> 50%
				Paper consumption	20 kg per employee
20	Cybersecurity and client data protection	10		Number of data leaks	0
21	Healthy operating profit	16	Responsible and social return	Profitability	€94.5 million
22	Shareholder return	15		Return on equity	5.4%
				Dividend payout ratio	58%

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 every day. Indeed, they make every effort to mitigate climate change, adapt their infrastructure to the changing circumstances and continue to ensure there is an adequate supply of high-quality surface water. NWB Bank helps them by providing financing on the most favourable terms possible. The keywords in this approach are: climate mitigation, climate adaptation and the improvement of biodiversity.

Financing the water authorities

NWB Bank's objective is to meet the vast majority of the water authorities' financing needs. In 2019, the bank granted a total of €817 million in loans to the water authorities (2018: €416 million). This represents a market share of more than 90%. The increase in lending to the water authorities is partly because they are facing major investment challenges in the area of climate adaptation and mitigation. The bank aims to maintain its dominant role in the financing of water authorities in the coming years, thus continuing to fulfil its core task towards its shareholders.

Water Bonds

To ensure the water authorities have sufficient resources and to be able to provide them with long-term lending in a sustainable manner, NWB Bank has been issuing Water Bonds since 2014. The proceeds from these sustainable bonds have been used to finance water authorities' projects that contribute to climate mitigation, climate adaptation and biodiversity. In September 2019, NWB Bank issued a 15 year €500 million Water Bond. Earlier in the year, the bank had already issued a relatively small Water Bond especially for the Swedish market worth SEK 200 million (€19 million) with a term of six years. A total of €4.6 billion in sustainable funding has already been raised with Water Bonds since the start in 2014. This makes NWB Bank a prominent player in the international capital market in the field of Green Bonds.

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.

Cooperation with the European Investment Bank

In 2019, the bank also renewed its cooperation with the European Investment Bank (EIB) to provide even more attractive financing to the water authorities. In this case, EIB will make €100 million available to NWB Bank on advantageous terms with a term of up to 25 years. EIB can finance up to 50% of each project, with NWB Bank providing the other half. A total of €200 million on preferential terms has thus becomes available for investments by the water authorities. The financing is mainly intended for flood protection and water management projects, thus benefiting all Dutch citizens. NWB Bank passes on the benefits of EIB financing to the water authorities on a one-to-one basis.

Climate adaptation: flood protection and modification of the water system

The rapidly changing climate is the water authorities' top priority. The heavy rainfall that until recently was not expected to be seen before 2050 is a regular occurrence. Rainfall, drought and temperature records are being broken repeatedly, and 2019 was no exception. 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. They call it '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 means flooding *and* water shortages must be limited as far as possible. The guideline for this target is the 'Delta Plan on Spatial Adaptation', which aims to ensure 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 are most effective in reducing the effects of changing circumstances. As a consequence of this investigation, water authorities will step up measures to better prepare the Netherlands 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.

Climate mitigation: new approach to energy and raw materials
On 11 October 2019, the water authorities unanimously backed the National Climate Agreement. The water authorities absorb the consequences of climate change to the best of their ability to keep the Netherlands safe and habitable in the future. This will only be effective if CO_2 emissions are also drastically reduced. The water authorities support the National Climate Agreement, stating that 'if the cause of climate change is not tackled actively and energetically, the water problems in our low-lying country will eventually become increasingly serious, if not unsustainable'.

The water authorities reduce CO_2 emissions by generating biogas and building wind turbines and solar farms, for example. The water authorities produce about 120 million cubic metres of biogas from sewage sludge. In 2025, they aim to be 100% energy-neutral. In addition, where possible they will make their wastewater and surface water available for heating residential areas as an alternative to natural gas. This is called aquathermal energy. Where feasible, local energy cooperatives will have the opportunity to use water authorities' sites for sustainable energy projects.

> "It is encouraging that politicians and society are developing clear climate targets and measures, which must now also be fully implemented. The water authorities contribute to the local generation of sustainable energy in line with the tasks of the regional energy strategies and cooperate with local energy cooperatives, municipalities, provinces and grid managers."
>
> **Dirk-Siert Schoonman,** Board member of the Association of Dutch Water Authorities

Biodiversity: wastewater purification and other measures
The water authorities are also working to ensure 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, drinking water companies and the recreation sector) 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:
- purifying the wastewater produced by the 7.9 million households and 1.8 million businesses in the Netherlands; and
- introducing 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 wastewater purification plants to ensure wastewater is sufficiently clean to be drained into 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 wastewater gives a good indication of the quality of the water authorities' wastewater purification processes. Those substances include phosphate and nitrate compounds, as well as oxygen-binding substances. Under European legislation, 75% of both the phosphates and the nitrates must be removed from wastewater. A higher minimum of 90% applies to oxygen-binding substances in the Netherlands.

There is a growing awareness in the financial sector, too, that biodiversity, just like the climate, is of crucial importance. As the water authorities are fully committed to preserving and improving biodiversity and the bank contributes to this with its Water Bonds, chair of the Managing Board Lidwin van Velden has been asked to set up a sector-wide working group on this issue. This working group was established by DNB's Sustainable Finance Platform and consists of representatives of insurers, asset managers, pension administrators and banks. The working group is identifying the challenges related to biodiversity and developing a sector-wide approach to the problem.

Facilitating reliable drinking water

In the Netherlands, the most important task of drinking water companies is to provide consumers and companies with sufficient volumes of high-quality drinking water. To continue to fulfil this task effectively, ongoing investments are needed in the drinking water infrastructure (e.g. pumping stations, wastewater treatment plants and the pipeline network). NWB Bank assists them by providing appropriate financing on favourable terms. Drinking water companies cooperate closely in various areas with the water authorities and municipalities. This cooperation is laid down in the Administrative Agreement on Water 2011 (Bestuursakkoord Water 2011). At the same time, 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 and associated capital costs. As a result, drinking water companies are a client group perfectly suited to NWB Bank.

Last year, €304 million in long-term financing was provided to these drinking water companies (2018: €145 million), which has further increased the bank's market share in this sector. The increase in the volume of financing provided to drinking water companies is in keeping with the bank's aim of being the bank of and for the public water sector.

Supporting innovation in the public water sector

Financing innovation in the water sector

Innovation is one of the driving forces behind sustainability. Last year, the members of the Executive Committee met with various parties to get a better idea of this market. The Board also discussed the potential role the bank can play in this area. These discussions ultimately led to the idea of setting up a Water Innovation Fund. This fund, which will operate independently and autonomously from the bank, will focus on financing projects in their pilot phase. This appears to be the most difficult phase of innovation, both in terms of implementation and financing. That is why this phase is often described by the term 'the valley of death'. The bank wants to use the fund to help and encourage the water authorities to continue to innovate together. The starting point is that this fund must be off the bank's balance sheet because of the higher risk profile of the financing. The fund is expected to be launched in 2020.

Last year, the bank continued to actively seek cooperation with other parties willing to take on the more risk-bearing portion of the financing. One of those parties could be Invest-NL, which will focus on financing and developing risk-bearing projects. In late 2019, the legislative process for the establishment of this public body was completed and the organisation was officially launched in January 2020. 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 investment activities that Invest-NL plans to carry out as complementary to its own financing options, which is why it will seek to work in partnership with it.

Water Innovation Prize

Every year, together with the Association of Dutch Water Authorities, NWB Bank awards the Water Innovation Prize to innovative water projects that are in keeping with the tasks and responsibilities of regional water authorities. Regular categories include 'Flood protection', 'Water quantity' and 'Water quality'. Every year, special attention is also devoted to an additional topic. The theme in 2019 was 'Digital transformation'. A new category was also introduced last year: 'Dreamcatcher'. Winners of the Water Innovation Prize receive a glass artwork by Gert Bullée.

Winners of the 2019 Water Innovation Prize are:

- Flood protection category: Ooijen and Wanssum area development by Fugro in cooperation with Waterschap Limburg (water authority)
- Water quality category: Kaumera by Waterschap Rijn en IJssel (water authority)
- Water quantity category: PlasticRoad by KWS, Wavin and Total
- Digital transformation category: the Fish Lift by Vislift B.V. and Waterschap Rivierenland (water authority)
- The Public's Choice: Using Sandy Banks to Reinforce Houtribdijk by the Directorate-General for Public Works and Water Management (Rijkswaterstaat)

> "The quality of the submissions was high, and the way the innovations responded to urgent issues was especially striking. Indeed, the water authorities are working hard to make their business operations and projects more sustainable. The focus on digital transformation is also in keeping with the spirit of the times, as well as the urgent need to implement these innovations."
>
> **Lidewijde Ongering,** chair of the Water Innovation Prize jury and secretary general of the Ministry of Infrastructure and Water Management

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 Association of Dutch Water Authorities. It helps them 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 eventually reach €20.5 million. Using the interest income on this capital, the NWB Fund makes €800,000 available each year to finance and support the water authorities' international partnership activities.

Blue Deal

In 2018, the water authorities joined forces with both the Ministry of Infrastructure and Water Management and the Ministry of Foreign Affairs to finance long-term and enduring partnerships until 2030. The programme set up for this purpose is called Blue Deal, and its primary goal is to help 20 million people gain access to an adequate supply of clean and safe water. The Blue Deal will run until 2030.

The Blue Deal programme has its own financing and has largely the same objective as the NWB Fund. The Dutch water authorities therefore transformed their NWB Fund projects into Blue Deal projects in 2018 and 2019. Based on this development, the NWB Fund tightened its strategy and policy last year to bring them more into line with the new reality.

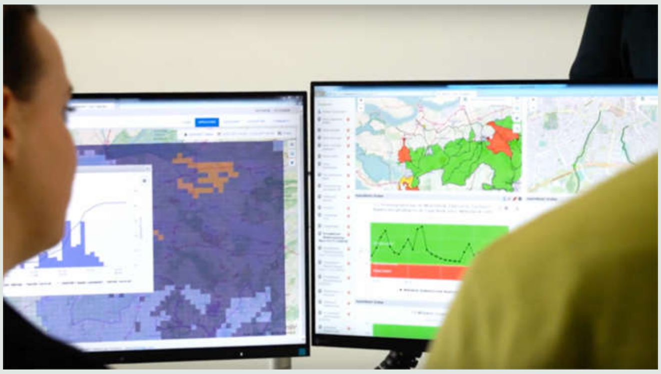
The NWB Fund focuses on the diversity and capacity of teams, professionalisation of working methods and better communication about doing work abroad. After all, running good projects depends on good teams, professional implementation, knowledge transfer and clear communication about the results of the Blue Deal. Therefore, the NWB Fund's role in the Blue Deal is mainly to act as a lubricant to generate even more impact abroad.

Case: HydroNET

Carrying out international projects is not something a water authority usually does alone. In general, there is a great deal of cooperation between different water authorities and organisations in the partner country. These government-to-government (G2G) partnerships, as they are called, sometimes also involve successful collaboration with the business community. An example of this is the roll-out of HydroNET in South Africa in the context of the Kingfisher II project. The NWB Fund financed this together with the Netherlands Enterprise Agency (RVO).

What is HydroNET?

Water shortage is a permanent threat in South Africa. To use the small amount of water that is still available as efficiently as possible, South African water authorities need access to historical, current and expected water and weather information. HydroNET is an online system from Hydrologic that combines weather and water data with models and knowledge. Personalised overviews, forecasts and alerts can then be provided, tailored to the needs of the water authority and other stakeholders. Based on this information, they can optimally distribute the scarce water that is available. In 2017, a successful demonstration project was carried out in the Inkomati-Usuthu management area, after which the South African Department of Water and Sanitation decided to roll it out more widely.



Working with water authorities
The cooperating water authorities supported the Kingfisher II project with the implementation of HydroNET. For example, they provided training. It is important for water authorities to provide good information and make the best possible decisions based on that data (the Decision Support System). In South Africa abundant weather data was already available but did not (or only incompletely) reach the country's water authorities. Indeed, the right tools and applications to bring this data together properly were lacking. HydroNET offers a solution to this problem. Moreover, HydroNET is also used by water authorities in the Netherlands. The Dutch water authorities and their South African counterparts have learnt to work with the tool's applications and dashboards. The Dutch water authorities and HydroLogic have stepped up the roll-out of HydroNET across South Africa. Some 130 South Africans have now been trained to work with HydroNET on a daily basis. This solution enables South African water authorities to make better decisions and work together with the stakeholders in a given area to find the best solutions for dealing with a shortage or abundance of water.

Follow a good example
The NWB Fund has ensured that people can receive training, but also that the use of the model is being applied more widely. For example, the water authorities organised a meeting to see how HydroNET can contribute to further international cooperation between, for example, South Africa, Eswatini and Mozambique. In addition, other Dutch water authorities' foreign projects are also examining how HydroNET can be used. The water authorities play an important role in the use of the data and what decisions can best be made on that basis as a water management organisation. Working together with the business community has demonstrated great results. Moreover, it enables the foreign and Dutch partners to learn a lot from and with each other.

KEY PLAYER IN FINANCING THE DUTCH PUBLIC SECTOR

NWB Bank is a financer of and for the Dutch public sector. The water authorities have opened the bank to other public and semi-public organisations. For some time, the bank has been financing municipalities and housing associations, for example. Over the years, the bank has become a key financer in the public domain.

Facilitating affordable and sustainable social housing

Housing associations provide good and affordable housing for people who need it. These are usually households with a modest income. Moreover, housing associations pay special attention to people who, for social, medical or psychological reasons, are unable to find housing themselves, and to permit holders. In addition, housing associations work on creating healthy and safe living environments. All in all, the housing associations manage approximately 2.4 million rental homes in which four million people live. These houses account for approximately 30% of the Dutch housing stock.

Due to their scale, housing associations are expected to play a leading role in the field of sustainability. Together, the housing associations have agreed, for example in the National Housing Agenda, to take substantial additional steps towards making the existing housing stock more sustainable. Housing associations are investing in energy savings and a sustainable housing stock, among other things, thus contributing to a better environment and lower housing costs for their tenants. Tenants with sustainable housing are 'better off': they live more comfortably and their energy costs can be considerably lower. Under the Woonagenda (Housing Agenda), the associations are aiming to achieve an energy label B on average in the sector by 2021 and to have all homes be carbon neutral by 2050.

1 IN 3 SOCIAL HOUSING HOMES IN THE NETHERLANDS ARE FINANCED BY NWB BANK

Financing 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). In terms of volume and outstanding financing, housing associations were again NWB Bank's largest client group in 2019. The bank's lending volume in this sector amounted to €5.8 billion in 2019 (2018: €5.1 billion). This volume relates to the primary demand for loans and advances and 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.

The 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 €250 million and €500 million across the sector.

Affordable Housing Bonds and SDG Housing Bonds

Since 2017, NWB Bank has been financing the activities of housing associations with special bonds. Initially, these were Affordable Housing Bonds. The proceeds of these Social Bonds were deliberately intended to finance the construction of social housing. In 2019, the bank extended and modified the framework for the Affordable Housing Bonds into the SDG Housing Bond framework. Proceeds from these bonds can now also be used for making social housing more sustainable.

Last year, NWB Bank issued three Housing Bonds. The first was a 10 year Affordable Housing Bond in February for €1 billion. In May, a second Housing Bond followed, again for €1 billion, this time an SDG Housing Bond with a term of eight years. The bank also issued a relatively small SDG Housing Bond especially for the Swedish market for SEK 200 million (€19 million) with a term of six years. Overall, since 2017 the bank has raised €6.7 billion of funding with SDG Housing Bonds and Affordable Housing Bonds.

Every year, the bank published a Social Bond Newsletter so investors can see how their money is being spent. This detailed report also describes how these bonds contribute to achieving the Sustainable Development Goals.

Converting derivatives

In the past year, the bank also conducted more transactions involving the takeover of derivatives with housing associations. For several years, housing associations (and other clients) 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. NWB Bank is thus helping to phase out derivative positions in the sector. As a result, housing associations no longer need to maintain extra liquidity buffers and can free up financial resources for their core tasks. The WSW is also guaranteeing these new loans granted by the bank. In 2019, the bank was involved in converting derivatives for an amount of €228 million (2018: €337 million).

Restructuring

NWB Bank also played an active role in the restructuring of the Stichting Humanitas Huisvesting (SHH) housing association and the reorganisation of Woningstichting Geertruidenberg (WSG). The bank took a constructive approach by seeking a solution that was first and foremost in the interest of the housing associations' tenants. For instance, the bank did 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 will be limited, while the bank can underline its social role and commitment.

Availability of financing

By always being available to (new) clients, the bank aims to achieve a substantial market share in the public sector. It also provides attractively priced financing for a varied and innovative playing field in which public funds are used efficiently and effectively. Essentially, the bank is always available to (new) clients from the Dutch public sector. Moreover, all of the bank's regular clients are always immediately provided with a quote for cash and long-term loans.

Municipalities

In 2019, NWB Bank provided municipalities with more than €1.5 billion in loans (2018: €1.1 billion). The bank also granted €226 million to finance joint schemes (2018: €109 million). Local authorities are increasingly collaborating with each other in a rising number of areas. It usually concerns tasks they can perform more effectively or efficiently together. Partnerships are sometimes prescribed by law, such as in the case of security regions, but cooperation is usually voluntary.

Healthcare

NWB Bank finances healthcare institutions, but then it only concerns loans secured by the Healthcare Sector Guarantee Fund (WFZ) and loans to academic hospitals. Guarantees by WFZ contribute to affordable and accessible healthcare. The market volume secured by WFZ has been declining for several years, and as a result the volume of lending by NWB Bank has also been declining. Academic hospitals, on the other hand, had a larger (re)financing requirement in 2019. NWB Bank provided a total of €184 million to healthcare institutions in 2019.

Public-Private Partnerships

In 2019, NWB Bank financed several Public-Private Partnerships (PPPs) for a total of €200 million. For example, in December, NWB Bank took over part of the refinancing of a project to expand the A15 motorway between Maasvlakte and Vaanplein. This project has a nominal value of about €1.5 billion, which makes it the largest contract ever put out to tender by Rijkswaterstaat. The bank also joined a group of banks in December that are financing the renovation of the Afsluitdijk. To increase water safety, the Afsluitdijk and its locks will be reinforced in the coming years and the capacity to discharge water into the Wadden Sea will be increased. In October, it was also announced that the bank is one of the financers of the expansion of the A9 motorway between Badhoevedorp and Holendrecht. To protect the environment, new noise barriers will be erected at the same time as the widening takes place.

The Equator Principles are applied to social and environmental risks when assessing Dutch infrastructure PPP 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.

Export financing

For many years, NWB Bank has been financing variable-rate export credit backed by the Dutch State (Export Credit Guarantee, EKG). During the financial crisis, the supply of export financing dried up and, with the help of the Dutch government, the bank entered this market. Since 2018, the bank has also been able to provide refinancing to export financers via a new desk at a favourable fixed interest rate called CIRR (Commercial Interest Reference Rate). The bank is thus able to further assist Dutch exports and enhance its social role. Unlike many other countries, the Netherlands had no CIRR financing until 2018. In 2019, €144 million in (re)financing was provided under an EKG.

Government-backed loans

Foundations, associations and other legal entities backed by local authorities or the government can also turn to the bank for financing. In addition to large players, such as the National Restoration Fund or the Amsterdam Municipal Transport Company (GVB), the bank also regularly deals with clients with relatively limited financing requirements. Think, for example, of sports clubs or schools that want to make their facilities more sustainable and/or renovate them. NWB Bank considers the financing of these clients part of its social obligation, even though the bank's relatively compact office organisation means it is not always cost-efficient to serve such small clients. In 2019, the bank provided government-backed financing totalling €531 million (2018: €127 million).

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 and affordability of government-backed residential mortgages. The supply of fully NHG-guaranteed RMBS transactions is limited, and the bank did not purchase any new NHG RMBS notes in 2019.

Providing financing at the lowest possible cost

By catering efficiently to the financing needs of clients as well as by virtue of its high creditworthiness and financial expertise, NWB Bank can raise more than sufficient funds on the international money and capital markets under attractive conditions. A good example is the issuance of sustainable bonds. The bank began doing this in 2014, and this is now an indispensable part of the bank's business operations. In many cases, the issuance of sustainable bonds is even more favourable than the issuance of traditional bonds, and that advantage is passed on to the bank's clients.

During the past ten years, the bank provided a total of €65 billion in loans. With total assets of approximately €96.2 billion, NWB Bank is the fifth-largest bank in the Dutch banking landscape, based on data from 2018. Particularly in the public sector, the bank contributes to a competitive, varied and innovative playing field in which public funds are handled efficiently and effectively.

Collaboration with the European Investment Bank and the Council of Europe Development Bank

Since 2016, the bank has concluded several loan agreements with the European Investment Bank (EIB) and in 2018, for the first time, with the Council of Europe Development Bank (CEB) as well. These supranational institutions can finance themselves even more inexpensively than NWB Bank. By collaborating with them, NWB Bank can provide the public sector in the Netherlands with even more attractive financing. It also means smaller projects and clients, which would otherwise be ineligible, can also benefit from low-cost EIB and CEB financing.

In addition to the new agreement with the EIB referred to above, which made a total of €200 million available on preferential terms to the public sector in the Netherlands, NWB Bank made use of the previously concluded facility with the CEB in 2019. Under this €300 million agreement concluded last year, the bank again used €150 million in 2019. The same amount had already been drawn in 2018, as a result of which the facility has now been fully utilised. The CEB made this facility available to NWB Bank for, among other things, the financing of social housing, sustainable energy projects and local infrastructure. As NWB Bank has again committed itself to providing at least the same amount, €600 million in additional investments have been mobilised in this way.

Client focus and comprehensible and appropriate products

NWB Bank always tailors its products and services to the client's needs and knowledge. It does so 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. 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.

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 sustainability policy, pertain to both the bank's loan and liquidity portfolio. In 2019, the bank went through the CDD process again for all its customers in connection with a tightening of its policy under the Money Laundering and Terrorist Financing Prevention Act (Wwft).

Once clients have been validated and a loan has been taken out, NWB Bank gives them all the attention they need, regardless of size or volume of lending. For instance, the bank essentially always responds to requests for face-to-face meetings and, if requested, is prepared at all times to consider bespoke arrangements. Requests for early repayments are a good example of this. The bank is proactive in helping clients find ways to optimise 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 2019. 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 for the client. As a result, these clients can use the liquidity that has been released for their core tasks or to reduce outstanding debt.

SUSTAINABLE PUBLIC TRANSPORT IN AMSTERDAM

Last year, NWB Bank provided financing worth €274 million to public transport company GVB in Amsterdam. GVB is using the financing to replace and further increase the sustainability of its equipment. This includes the purchase of electric buses and new tram and metro carriages. GVB wants to be climate-neutral by 2025.

Every day, about 875,000 people use GVB to travel by metro, tram and bus and on the ferries across the IJ and North Sea Canal. The financing was the first external loan in the history of GVB, which works together with the Amsterdam Transport Authority. The latter is the guarantor and reimburses the capital costs. In addition to investments in equipment, GVB also uses the loan for investments in real estate, ICT systems and installations such as car wash lanes, wheel lathes and lifting structures.

> GVB wants to be climate-neutral by 2025.

FINANCING PARTNER FOR ENHANCING SUSTAINABILITY IN THE NETHERLANDS

Facilitating renewable energy projects

Projects related to renewable energy and the circular economy are generally characterised by a large financing requirement and a lengthy period during which the investment must be recouped. Providing this type of long-term project financing at a relatively low cost dovetails perfectly with NWB Bank and the role it plays in society. Since last year, projects and organisations that have received a 'Stimulation of Sustainable Energy Production' (SDE+) grant can turn to NWB Bank for project financing. With the SDE+, the government is stimulating the development of a sustainable energy supply in the Netherlands. Examples of this are solar and wind energy. In 2020, the existing SDE+ scheme will be expanded into SDE++. What is new here is that, in addition to categories for the production of renewable energy, CO_2-reducing options other than renewable energy will also be eligible for grants. This will ensure that the regulations and methodology, and therefore the principles for SDE+, are extended to cover a broader range of CO_2-reducing categories (including aquathermal energy).

In the first year in which it operated in this financing market, NWB Bank provided €294 million in financing for renewable energy projects. For example, the bank co-financed four wind farms that can supply almost 950,000 households with sustainable energy. The bank also financed a sustainable heat network in the municipality of Groningen. Heat grids are crucial for the large-scale roll-out of renewable heat sources in the context of developing gas-free districts.

Aquathermal energy

Last year, NWB Bank signed the Aquathermal Energy Green Deal. Together with parties from the government, water management, research and the business community, the bank is mapping out the possibilities of using aquathermal energy to heat or cool buildings. The process is an innovative way of extracting heat and cold from three different water sources: thermal energy from surface water, wastewater and drinking water. This clean energy can be used to sustainably heat houses and other buildings. Research shows that thermal energy from surface water can provide 40% of the heat demand in urban areas. Sources such as wastewater and drinking water can supply 15% and 1.5%, respectively. Aquathermal energy can help achieve the transition to gas-free heating and thus accelerate to the necessary energy transition.

Through the Green Deal, various parties are not only working together to bring the potential of aquathermal energy to the attention of stakeholders. They are also working together to develop and share knowledge about aquathermal energy and assess its value in practice. This way, aquathermal energy can eventually be used as an alternative heating system in the built environment. A concerted effort is underway with some other government's climate programmes, such as the Regional Energy Strategy (RES) and the Gas-Free Neighbourhoods Programme (PAW).

Sustainable funding

As a sustainable bank for the public sector, the issuance of SRI bonds has become an indispensable part of NWB Bank's business operations. In addition to traditional investment considerations, such as investment security and risk-adjusted returns, these bonds have been purchased by investors because of their interest in supporting climate-friendly and social projects within their investment mandate. By issuing these specific bonds, NWB Bank continues to attract new investors and increases the market reach for sustainable bonds. The issuance of these bonds underlines the bank's role as a robust and sustainable financial partner for the Dutch public sector.

In 2019, NWB Bank raised more than €2.5 billion in funding with SRI bonds. The bank has thus met its target of raising at least 25% of its own long-term funding each year by issuing sustainable bonds. In total, the bank has issued more than €11 billion in sustainable bonds since 2014. At the end of 2019, just over 20% of the total amount of bonds on the bank's balance sheet consisted of sustainable bonds. Internationally, NWB Bank is a leading SRI bond issuer within the SSA group (Sovereigns, Supranationals and Agencies). In the Netherlands, the bank is even the largest Dutch issuer of SRI bonds.

Charting the climate impact of financing

In July 2019, NWB Bank, along with virtually the entire Dutch financial sector, committed itself to the government's climate targets. In the presence of Finance Minister Wopke Hoekstra, banks, insurers, pension funds and asset managers signed a commitment in which they agree to report on the climate impact of their financing and investments from 2020 onwards. In addition, by 2022 at the latest, they must have action plans in place that contribute to a reduction in CO_2 emissions.

NWB Bank is ahead of schedule and has already charted the climate impact of 93% of its loan portfolio. The bank uses the PCAF (Partnership for Carbon Accounting Financials) methodology for this. PCAF provides a framework and harmonised methodology that increases transparency and awareness of CO_2 emissions and reporting. The bank officially joined this partnership in January 2019. This happened before the signing of the Climate Agreement, in other words, charting the climate impact of its loan portfolio was already a strategic objective of the bank.

Research institute Telos/Het PON, which is affiliated with Tilburg University, helped the bank chart the climate impact of its financing. BNG Bank also collaborates with Telos/Het PON. The nature and composition of the loan portfolios of both banks are largely similar, which is why it makes sense to use the same data, approach and methodology. It also increases the comparability in this area between the two public sector banks.

> “PCAF plays an important role in enabling the financial sector to make the transition to a positive, low-carbon future. By making their CO_2 emissions transparent, financial companies are taking a very important step towards eventually aligning their portfolios with the Paris Climate Agreement. PCAF offers a simple and powerful way to start measuring and reporting on climate impact. We call on the financial sector to assess the emissions from their loans and investments, reduce their fossil asset financing and actively support the transition to a low-carbon economy of the future.”
>
> **Piet Sprengers,** Chair of PCAF and manager Sustainability Strategy and Policy at ASN Bank

Water Authorities' Climate Monitor

To have sufficient and, above all, high-quality data at its disposal to monitor the climate impact of the bank's financing, NWB Bank and the Association of Dutch Water Authorities have been the engine behind the Water Authorities' Climate Monitor since 2018. This annual survey, carried out by Arcadis, shows the water authorities' progress towards the national targets to reduce CO_2 emissions and generate sustainable energy. The water authorities have high ambitions when it comes to sustainability. They aim to meet 40% of their energy needs by 2020 and to be 100% energy-neutral by 2025. According to the 2018 Climate Monitor, this percentage was 36.2% in 2018. In other words, the water authorities are right on track. Another goal is to significantly reduce their carbon footprint. They are doing this by producing biogas through the fermentation of sludge, but also by constructing solar farms and wind turbines on their sites. The Climate Monitor shows that the water authorities managed to reduce CO_2 emissions during the period 2005–2018 by 67%.

Action plan

Charting the climate impact of its lending is an important step towards developing objectives for how the bank can contribute to achieving the Paris climate targets. Based on this insight, the bank would also like to have a positive impact on the (sustainability) policy of its clients. Next year, the bank will develop an action plan that will be ready in 2021.

SUSTAINABLE DISTRICT HEATING IN THE MUNICIPALITY OF GRONINGEN

In October 2019, NWB Bank provided financing for the amount of €35 million to WarmteStad B.V., the utility company of the municipality of Groningen and Waterbedrijf Groningen. WarmteStad is building a sustainable heating network in the Groningen neighbourhoods of Zernike, Paddepoel and Selwerd. In the future, the district heating network will provide affordable and sustainable heating to more than 10,000 businesses, institutions and households.

The network will derive its heat from surplus heat from data centres. Surplus heat is heat released during the cooling of servers in data centres. The heat is used via heat exchangers and then further heated to the desired temperature using heat pumps. The electricity for the heat pumps is supplied by green electricity from solar parks and the company's electricity production using cogeneration. By the end of 2020, the cogeneration of surplus heat should be a reality.

“WarmteStad is delighted to have found a sustainable partner in NWB Bank, who is going to help us drive the energy transition in Groningen.”

Dick Takkebos, managing director of WarmteStad B.V.

SUSTAINABLE, EFFICIENT AND SOCIALLY COMMITTED ORGANISATION

Financially stable bank

NWB Bank is one of the safest banks in the world. In 2019, the bank again found itself in the top ten of the worlds' safest banks, taking sixth place. This stability is reflected in its capital and liquidity ratios.

Capital ratios

The bank's Tier 1 ratio at year-end 2019 was 61.4% (2018: 73.8%) and the Tier 1 core capital ratio (CET1 ratio) 51.6% (2018: 61.6%). Both figures exclude the profit for the current financial year. The decrease is due to lending to sustainable projects with a risk weighting. NWB Bank's capital ratios are well above the minimum requirement. As part of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank (ECB) has reassessed the capital requirement for NWB Bank. The requirement for the bank-specific Pillar 2 capital requirement remained unchanged at 2.25%. This requirement will apply from 1 January 2020. The total SREP capital requirement for NWB Bank is 10.25%. This is the sum of the total Pillar 1 capital requirement of 8% and the Pillar 2 capital requirement of 2.25%. The total capital requirement amounts to 12.75% if the capital conservation buffer of 2.5% is also taken into account.

Leverage ratio

On 27 June 2019, the renewed European capital regulation CRR II entered into force. Part of this is an adjusted definition of the leverage ratio for promotional banks. In short, the bank may exclude lending to the public sector from calculation of the leverage ratio. In that case, the leverage ratio (including current profit) stands at 15.4% as at 31 December 2019. This is well above the future minimum requirement of 3%. Without the aforementioned adjustment to the definition, the leverage ratio was 2.4%. (2018: 2.6%)

This decrease is mainly due to the increased market value of the fixed-interest part of the loan portfolio and the increased collateral requirements under the derivatives portfolio. Both are a consequence of the further decrease in interest rates. Although the leverage ratio and the rest of CRR II have already entered into force, the bank will only have to comply with a minimum leverage ratio requirement of 3% in two years' time. The bank can already comfortably meet this requirement because of the amended regulation.

Liquidity ratios

The Liquidity Coverage Ratio (LCR) was introduced in 2015 as part of CRR/CRD IV (Capital Requirements Regulation/ Capital Requirements Regulation IV). The LCR is designed to ensure institutions hold sufficient liquid assets to meet their estimated net cash outflows over a 30-day period of significant stress. At year-end 2019, the LCR stood at 204%, well above the statutory minimum of 100% (2018: 222%).

With the introduction of CRR II/CRD V on 27 June 2019, the Net Stable Funding Ratio (NSFR) also came into force and this requirement will be applied, like the leverage ratio, in two years' time. For NWB Bank, the NSFR ratio stood at 118% at year-end 2019. This is well above the future minimum requirement of 100% (2018: 129%). The NSFR is also a liquidity ratio and relates to the availability of liquidity in the longer term. The internal liquidity requirements are partly determined using the ILAAP.

Appropriate risk profile

Central to the bank's strategy is the retention of its high-quality risk profile as reflected in its credit ratings. To be able to optimally serve its clients, the bank's credit ratings must remain at the same level as those of the Dutch State. The bank has the highest possible credit ratings from both Standard & Poor's and Moody's: AAA/Aaa, respectively.

ESG rating agency	Sustainalytics	MSCI	imug	ISS	Vigeo Eiris
NWB Bank ESG rating	68	BBB	BB	B-	57
ESG rating scale	1 to 100	CCC to AAA	DDD to AAA	D to A+	100

The bank also aspires to a high-quality risk profile in the area of sustainability. The bank's specific CSR policy and its application are assessed by special ESG rating agencies. In general, NWB Bank has strong sustainability ratings and plans to improve them where possible. The bank has ESG ratings from imug | rating from Hannover (Germany), ISS ESG from Munich (Germany), MSCI ESG Research from the United States, Sustainalytics from Amsterdam and Vigeo Eiris from London (United Kingdom). The ESG rating agencies issue ratings or scores based on their own assessment framework. Further information about their assessment frameworks can be found on the websites of the agencies concerned. At most of the rating agencies mentioned, NWB Bank's ESG rating is at the top of its peer group.

Sustainable business practices

The bank seeks to use its internal organisation 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 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, the bank decided to only purchase cars with zero carbon emissions for its employees and Executive Committee from mid-2019 onwards. By year-end 2019, 35% of the bank's car fleet was already emission-free. The bank is also working to improve the office's energy label, which is legally required to be brought to label C by 2023. In this context, the glazing was replaced last year and the lighting will be replaced by LED lighting. Ultimately, the bank aims to achieve an A energy label.

Last year, average carbon emissions at the company amounted to 2.8 tonnes per person. This is an improvement compared with 3.7 tonnes per person in 2018. The remaining emissions are compensated by the bank, making the bank climate-neutral on balance in its business operations. Compensation takes place through Trees for All, which plants trees in the Netherlands and abroad to offset carbon emissions. By opting for this form of carbon offsetting, the bank also contributes to the achievement of the Sustainable Development Goals.

Social involvement

The bank and its employees are socially involved. Both during and outside working hours, employees are encouraged to take part in activities and projects that contribute to society. Examples include the 'Bank voor de Klas' project, in which employees and members of the bank's Executive Committee act as guest teachers in primary schools. Employees also participated in World Cleanup Day last year and helped out at the food bank.

Sponsorship

One of the ways NWB Bank demonstrates its social commitment is through sponsorship. Projects and/or activities related to water are eligible for a financial contribution from the bank. The annual budget for this is €125,000, which has been more than fully used.

The National Maritime Museum

In 2019, the bank became the proud sponsor of the exhibitions 'The Scramble for the Arctic' and 'The Rising Tide' at the National Maritime Museum in Amsterdam. These exhibitions focus on the global impact of melting ice and rising sea levels. The Rising Tide exhibition by photojournalist and filmmaker Kadir van Lohuizen is a wake-up call and highlights the global and irreversible consequences of rising sea levels. The Scramble for the Arctic exhibition illustrates the historic Dutch presence in the Arctic region. This process was characterised by exploration, exploitation, science and nationalism and constantly pushed the limits of what is possible.

The Flood Museum in Ouwerkerk

The bank took the initiative to help the Flood Museum in Ouwerkerk in a unique way. The bank's contribution means the museum will be able to use 'Softs Point' solar panels for the next five years. This will enable the museum to start generating its own sustainable energy. The museum can put the money it saves from this to other uses. Previously, the bank provided a loan allowing the museum to buy an adjacent building. It now accommodates part of the National Knowledge and Remembrance Centre for the Floods of 1953. The municipality of Schouwen-Duiveland is guaranteeing the financing, which is also being used to make the current accommodation for the museum more sustainable.

Internships

NWB Bank offers internships to senior secondary vocational education, higher professional education and university education students. The aim is to facilitate at least two internships per year and possibly more. This depends on the availability of internal mentors. Last year, an intern joined the IT Department. The bank is an 'approved training company' for senior secondary vocational courses as an ICT manager, ICT administrative assistant, and network and media manager. The bank offers internship places in that context. Since September, a student-assistant from Erasmus University Rotterdam has also supported the Biodiversity Working Group chaired by NWB Bank. This student is supervised by the bank's chair of the Managing Board and the secretary to the Managing Board. In the framework of this partnership, the bank has also joined the Erasmus Platform for Sustainable Value Creation.

Power Certificate

NWB Bank believes it is important to create job opportunities for people who are distanced from the labour market. To draw attention to our contribution, we have agreed with all other banks party to the Collective Labour Agreement (CLA) for the Dutch Banking Industry to buy at least one Power Certificate from Everyday Heroes every year during the term of the CLA. A Power Certificate costs €3,500. Everyday Heroes uses this to remove the final obstacles to gainful employment. Each certificate is linked to a job, so it helps people who have been out of the labour market find work again. The agreement in the CLA came into effect in 2015 and will run until at least 1 January 2021.

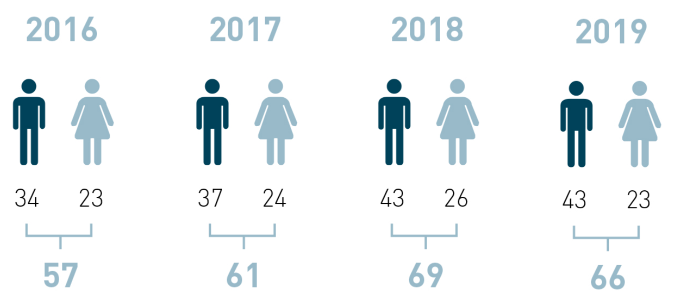
Employee sponsorship

Employees who can demonstrate regular involvement in a sustainable project can ask the bank to contribute money, time or both. This encourages them to get involved in volunteer work. In 2019, the bank contributed to a citizen initiative in Lansingerland, which one of the bank's employees helped to set up. The bank's contribution helped in the creation of a 'harvesting strip' and an 'edible space'.

Diversity of employees

NWB Bank seeks to recruit professionals who add diversity to its workforce. For NWB Bank, diversity goes beyond gender. The bank wants its workforce to reflect society as much as possible. For example, attention is paid to drawing up recruitment profiles. For each vacancy, the bank looks at which candidate will complement a team in terms of knowledge, skills, background and personality.

GENDER SPLIT



BREAKDOWN OF EMPLOYEES BY AGE CATEGORY

	2019		2018	
Age category	number of employees[1]	%	number of employees	%
61 to 70	3	4.5	1	1.4
51 to 60	21	31.8	18	26.1
41 to 50	22	33.4	29	42.0
31 to 40	13	19.7	12	17.4
21 to 30	7	10.6	9	13.0

1) 62% of our total workforce is male and 38% is female.

In the event of equal suitability, candidates who contribute to diversity within the bank are given preference when vacancies arise. In this way, NWB Bank aims to create a diverse workforce.

Integrity

Employee 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 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. Internal reports of corruption or bribery must be submitted to the compliance officer. The compliance officer reports directly to the chair of the Managing Board and has a direct line of communication to the chair of the Supervisory Board.

Screening of new employees

Before joining the bank, all recruits are subject to Pre-Employment Screening, regardless of their position. In addition, all employees in commercial roles must be listed in one of the registers of the Dutch Securities Institute (DSI). All new employees are required to sign several 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. New employees are also familiarised with the privacy policy.

Sustainable employability of employees

The bank's contribution to society depends on its ability to attract and retain professional and committed staff. In 2019, the bank further developed its Strategic Personnel Planning (SPP) programme to identify the development needs of the organisation and its employees for the medium term. The results shed light on the changes that this brings about in the organisation in terms of working methods and required competencies.

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. Their ideas are then discussed during the objective, evaluation and assessment interviews employees have with their line managers. Before 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.

The bank encourages internal advancements, and every vacancy is first opened to internal employees. This approach resulted in two employees taking new positions or moving to another department in the bank in 2019.

TRAINING BUDGET SPENT PER EMPLOYEE

Generous training budget

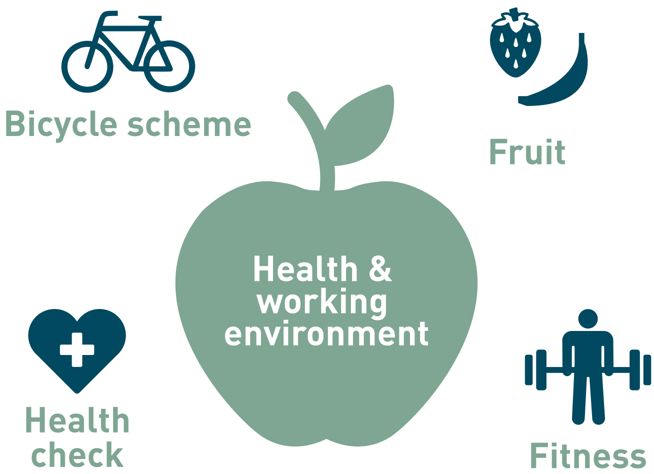
Providing a generous training budget is one of the ways the bank encourages its employees to continue developing their knowledge and skills. This budget amounted to €250,000 in 2019, with an average of €3,363 being spent on each employee. As a result, the target of €3,250 per employee has been met. Overall, 89% of the training budget was spent in 2019. Note that the costs for learning on the job and coaching (by external parties, where necessary) are not included in these figures. This way of learning is an important feature within NWB Bank, however. 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 regularly provided. In 2019, the bank's employees completed in-company training sessions on dilemmas, operational risk management and the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft). There is also ample scope for employee initiatives. A good example of this is the study trip a group of young employees from the bank (Young NWB) made to the public sector bank MuniFin in Helsinki, Finland.

Health and working environment

A healthy working environment is essential to ensure sustainable employability. A focus on physical and mental health is in keeping with NWB Bank's culture and policy of prioritising its employees. The bicycle scheme, which is used by 24% of staff, is a good example. In 2019, all employees were also allowed to do a free health check. The bank also has an indoor gym and provides fruit to its staff.

NWB Bank aims to keep absenteeism below 2%. The rate in 2019 was 1.8%.



Culture, behaviour and development

The bank's core values are 'conscious, committed and credible', and they are firmly anchored in the bank's corporate culture and code of conduct. One of NWB Bank's main strengths is its compact and flat organisational structure. It creates a professional and pleasant corporate culture, which recognises the importance of cooperation and commitment. There are direct and short lines of communication between employees, as well as with management and clients. NWB Bank is still growing and wants to maintain its open and accessible corporate culture. It therefore devotes a great deal of attention to this when recruiting new colleagues. Social skills and competencies, as well as level of education and work experience, play an important role in the selection process.

Culture and behaviour are deliberately discussed in the organisation on a regular basis. For example, the management team's strategy meeting in July was largely dominated by 'cooperation', and the management team started working with Management Drives software. This software measures and provides insight into what motivates a team or a person. This makes it easier to discuss behaviour, as it taps into the strengths of the team and each individual. In late December, the management team also held an offsite event dedicated to change. In that context, a visit was also made to one of the bank's clients: a housing association. The main focus of this visit was on the social aspect of the housing association's activities and its capacity for change.

Responsible remuneration policy

NWB Bank wants its remuneration policy to reflect the role it fulfils in society, as a bank of and for the public sector. The bank has opted for a moderate and sustainable remuneration policy that is in keeping with its strategy, low risk profile and risk appetite. The remuneration policy thus helps to achieve the bank's long-term objectives, which aim to create long-term value. 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.

An important indicator of manageability is the remuneration ratio between the chair of the Managing Board and the median of the NWB Bank's other employees. In 2019, this amounted to 3.8. This is lower than many other organisations in the banking sector in the Netherlands in 2018 and lower than most companies in which the Dutch State is shareholder.

Digitisation of services and business operations

To improve the services it provides to its clients and simultaneously reduce the amount of paper and postal correspondence, NWB Bank launched a digital client portal in 2019. NWB Portal is 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 do not need to develop or purchase a system of their own. Clients can view and analyse the details of their loans at NWB Bank. They can also add details of loans from other lenders. This allows users to analyse their entire loan portfolio. Finally, NWB Portal provides access to indicative rates for new loans and current market data. By the end of 2019, more than half of the bank's approximately 1,000 customers were connected to NWB Portal.

Another indicator of digitisation is the organisation's consumption of paper. The paper consumption per person in 2019 was 20 kg. The introduction of the NWB Portal helps to advance digital communication.

Cybersecurity and client data protection

Clients must be able to rely on their data being kept safe at the bank. Consequently, over the past year several control measures were put in place to ensure the bank's digital infrastructure functions properly at all times. To that end, the bank complies with the General Data Protection Regulation (GDPR), which entered into force in 2018. There were no data leaks in 2019. The internal audit department monitors the IT control environment annually, and an audit is scheduled for 2020 to monitor the cybersecurity environment.

RESPONSIBLE AND SOCIAL RETURN

Healthy operating profit

NWB Bank refrains from pursuing profit maximisation, although a reasonable profit must be made to guarantee its continuity. In 2019, the bank made a healthy profit of €94.5 million. This is less than in 2018, which saw a profit of €99.7 million. The decrease in net profit was expected and is mainly due to the composition and maturity of higher-yielding items in both the loan and liquidity portfolio. There were also less attractive margins on short-term financing of the liquidity buffer and collateral held in the derivatives portfolio.

Shareholder return

NWB Bank has agreed a benchmark target return on equity with its shareholders. The benchmark target return for 2019 was 3.7%. With a return on equity of 5.4%, the bank has therefore more than met this benchmark target return. The bank's main priority is a social return, so everything the bank does focuses on creating added value for society. Examples include reducing clients' CO_2 emissions as well as affordable and sustainable social housing and healthcare. The bank is continually seeking new opportunities to extend its role as a bank for the Dutch public sector and thus further increase its contribution to the enhancement of sustainability in the Netherlands. In doing so, the bank emphatically embraces the United Nations' Sustainable Development Goals.

The share of profit available for dividend has been set at €55 million by the Managing Board and Supervisory Board. The profit for the reporting year 2019 was €94.5 million.

At the Annual General Meeting on 18 April 2019, the bank's Managing Board announced that dividend distributions would be cautiously resumed, because an agreement in principle had been reached on new capital requirements regulations, including a new calculation method for the leverage ratio. This decision followed a longer period during which no dividend was paid because the leverage ratio according to the definition used until then was less than 3%. A dividend of €20 million was paid out for the 2018 financial year. Determining the amount available for dividend payment is an annual discretionary power of the Managing Board with the required approval of the Supervisory Board, taking into account the interests of the continuity of the bank, as well as the interests of shareholders and other stakeholders.

To this end, the following principles have been incorporated into the dividend policy:

- the bank's future resilience, including compliance with (future) relevant laws, regulations and requirements, must be guaranteed;
- subject to the above condition, the bank aims for a payout ratio range of between 40% and 60%;
- the bank evaluates the dividend policy periodically and whenever developments arise that give cause to do so.

In the meantime, the regulations regarding capital requirements have been ratified and, according to the new definition, the bank comfortably meets the 3% leverage ratio requirement. The proposed dividend payment of €55 million for the 2019 financial year means the payout ratio amounts to 58% of the profit. After the cautious resumption of the dividend distribution last year, a payout ratio has been chosen at the top of the range of 40% to 60% as formulated in the dividend policy.

DILEMMAS IN 2019

The bank regularly encounters dilemmas when carrying out its activities and reporting. This section contains several issues that have caused the bank to decide whether to take action based on its CSR policy.

Generic financing

In most cases, NWB Bank provides 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 the client and the bank. 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.

Client groups with limited financing needs

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 of clients 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 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 bank contain a rebound clause. A rebound implies the principal bank is always given an opportunity to issue a second, better quotation. As NWB Bank believes 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 refrain from offering quotations either because 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 quotation.

Non-guaranteed financing

NWB Bank's Articles of Association stipulate that the bank can only finance housing associations and healthcare institutions guaranteed by the Social Housing Guarantee Fund (WSW) and the Healthcare Sector Guarantee Fund (WFZ), respectively, academic hospitals being the exception. In the current market, in which there is a high demand for mid-rent housing, for example, it may be that these clients find it hard to obtain appropriate financing if 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.

Holders of Sustainable 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 sustainable 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 highly values the diversity of its workforce. The bank is committed to having a workforce in which 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 is aware of the diversity issue, even if it does not report details.

RISK MANAGEMENT

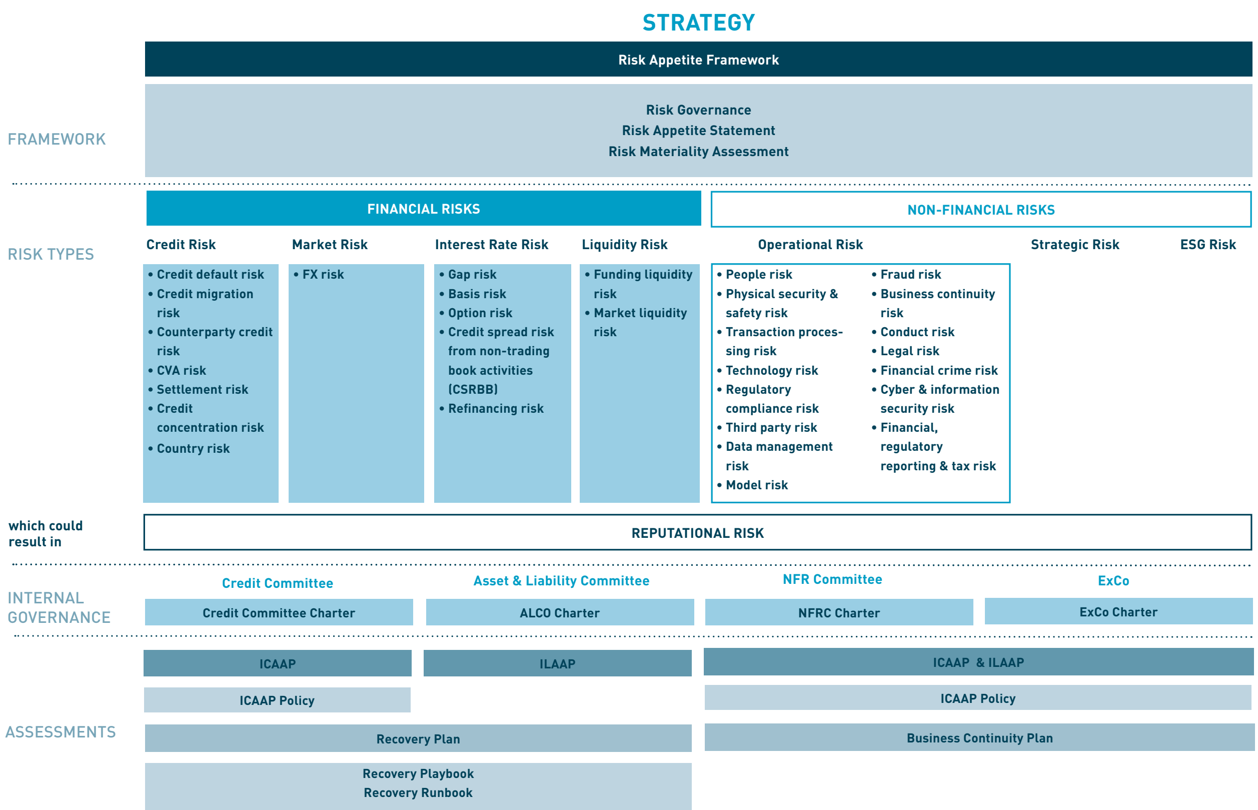
Risk management has a central role in the organisation. Risk awareness is an important element of the bank's business culture and is embedded in its long-term strategy aimed at solidity, efficiency and sustainability. The organisation is designed to identify and analyse risks at an early stage. The bank aims to set sensible limits and monitor those limits (also refer to note 34 in the financial statements). Risk management is characterised by effectively responding to changing circumstances and by providing proper parameters for the bank's operations. This helps NWB Bank maintain its strong financial position and very low cost structure.

RISK MANAGEMENT FRAMEWORK

NWB Bank's risk management is organised on the basis of the risk management framework depicted below. This framework comprises the following elements, the most prominent ones of which are explained in this chapter.

Risk appetite

NWB Bank is exposed to certain risks in achieving its strategic objectives. The bank's risk appetite, which is expressed in the degree and areas of risk that it is prepared to accept, is set out in the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS). The bank's Supervisory Board agrees with and has approved both documents. In 2019, the bank made further improvements to its RAF, revised its RAS, and further clarified the translation of the RAS into risk parameters and internal limits.



Risk assessments

Internal Capital Adequacy Assessment Process

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 and on a quarterly basis. 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.

In 2020, NWB Bank will participate in the EU stress test of the European Banking Authority (EBA).

Internal Liquidity Adequacy Assessment Process

The Internal Liquidity Adequacy Assessment Process (ILAAP) is used to determine internal liquidity requirements. The 2019 ILAAP did not result in additional liquidity requirements from the ECB and showed adequate levels for the Liquidity Coverage Ratio (205%) and Net Stable Funding Ratio (118%).

Recovery Plan

NWB Bank updated the Recovery Plan and submitted it to the ECB/DNB at the end of 2019. The recovery plan, which sets out the bank's recovery procedure following situations of severe stress, includes triggers for action. The recovery triggers as defined in the Recovery Plan are in line with the bank's risk appetite.

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 the 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 2020

The bank expects a limited increase in the need for new long-term funding in the public sector and aims to maintain the loan portfolio to the best of its ability. The bank's own total funding requirement for 2020 is estimated to be €11 billion. To underline its focus on sustainability and remain a leader in the field of sustainable bonds, the bank intends to again meet at least 25% of its own funding requirement by issuing SRI bonds in 2020. The bank will have to repay approximately €7 billion in long-term funding in 2020.

In terms of the internal organisation, the bank foresees a further personnel increase in 2020 as well. This is necessary in light of its ambitions in the area of sustainability, the further diversification of its lending, as well as to safeguard the current level of professionalism and effectiveness in the organisation. It will also enable the bank to respond to changing market developments and trends. Operating expenses are expected to increase slightly further in 2020, but the bank will remain a compact and cost-efficient organisation.

In addition to corporate income tax, the bank is required to remit approximately €20 million in bank tax. The bank will also make a further contribution to the Single Resolution Fund in 2020. The amount of the net profit depends in part on the effect of other emerging tax regulations for banks. If this is not taken into account, the bank expects profits next year to be on par with 2019.

REPORTING STANDARDS

Global Reporting Initiative

NWB Bank reports on its activities in a transparent way. In doing so, the bank follows the **Global Reporting Initiative (GRI)** guidelines. This report is based on the GRI standards for 2019, and the bank reports at GRI reporting level 'Core'. The Report of the Managing Board has been drawn up according to these GRI standards, which have been verified by Ernst & Young Accountants LLP; see the **Assurance report (see page 180)**.

NWB Bank's reason for choosing GRI is that it offers excellent international comparability with other institutions, as well as other banks and state-owned enterprises in the Netherlands that apply this framework. For a full overview of relevant substantial criteria and (self-developed) performance indicators, reference is made to the bank's **GRI Index (see page 191)**.

Disclosure of non-financial and diversity information

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 executive level. The Directive has been transposed into Dutch law in two parts, effective 1 January 2017. 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. Under Dutch law, NWB Bank is already legally obliged to report on diversity in its annual report.

UN Global Compact

NWB Bank subscribes to the UN Global Compact Principles. By signing these principles, the bank has agreed to take into account key themes such as human rights, the environment and anti-corruption in its business processes. It also means the bank will expect its stakeholders to comply 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 (International Corporate Social Responsibility) Agreement for the banking sector in 2016. NWB Bank recognises that human rights are universal values and that the bank 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 risks for NWB Bank are limited given the public-sector nature of its loan portfolio. Nevertheless, the bank takes this policy into account in its lending activities and its own office organisation. The bank's human rights policy and the related report can be found on the **bank's website**.

Climate Statement Banks

In the run-up to the Climate Conference in Paris, Dutch banks jointly published the Climate Statement Banks 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 aim 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 is mentioned as the first party in the Netherlands to break the €10 billion mark on sustainable bonds issued.

4

REPORT OF THE SUPERVISORY BOARD

4. REPORT OF THE SUPERVISORY BOARD

INTERVIEW WITH AGE BAKKER, CHAIR OF THE SUPERVISORY BOARD

"NWB BANK IS WORTH COMMITTING TO"

In April 2020, Age Bakker, chair of the Supervisory Board, will proudly hand over the baton to his successor. This is a good time to look back on six years of chairmanship. His last year at NWB Bank was dominated by the implementation of the new strategy, an important topic of discussion between the Executive Committee and the Supervisory Board. He looks forward to building on this strategy in the coming years with confidence.

How do you look back at the past year? What were the main themes from the Supervisory Board's perspective?

Last year was an excellent year, also from a financial point of view. The main focus was the implementation of the bank's new strategy. For the first time, the strategy is linked to clear objectives. We are now starting to reap the benefits. Internally as well as externally, there is a greater understanding of NWB Bank's work as a sustainable water bank, the bank's objectives and the added value it provides. This clear and concrete strategy has given rise to a good dialogue in which the objectives are an excellent point of reference to jointly discuss what went well and where improvement is needed."

What were the highlights of 2019?

A very important point, I think, is the dividend payment to our shareholders. I am very happy that we are able to resume it. We have not been able to pay out anything for the last seven years and I have found that difficult. At times the water authorities face financing challenges, and then the dividend payment can make the difference for some of them. In addition, by lending more than €10 billion in 2019, the bank not only provided record financing, which is a great achievement, but it is also about double what we provided six to eight years ago. As one of the largest issuers of Green and Social Bonds worldwide, NWB Bank finances that in an innovative and sustainable way."

What were the dilemmas in 2019?

Our strength has always been 'lean and mean'. When I started at NWB Bank, the bank had about 40 FTEs (full-time equivalents) and now we are up to 63 FTEs. And in the coming years we are heading towards 80 FTEs. That is nearly a doubling. The bank is undergoing significant growth and that has implications for its structure. The challenge for the Managing Board and the Supervisory Board is to remain as 'lean and mean' as possible and to ensure everyone in the organisation is committed and involved."

What developments has the Supervisory Board witnessed, and how do you respond to them?

"In the first place, NWB Bank's aim is to provide the public sector with appropriate financing at the most favourable terms possible. That is the bank's core task. The bank must always maintain at least 90% of its lending in this core area. The other 10% is the icing on the cake. There we can try to support the biggest challenges of government financing, and in particular the transition to sustainable energy. We have to respond to that, and that means taking more risks."

How would you characterise the cooperation between the Supervisory Board and the Executive Committee?

"The Executive Committee is in charge and the most important thing for the Supervisory Board is to ensure the Executive Committee works well together and operates as a team. The Supervisory Board looks at the functioning of the Executive Committee as a team from the perspective of the employer. Are the checks and balances good? Does everyone play his or her role? Is each one operating from his or her specific responsibility? The second point is to have an alignment between the Supervisory Board and the Executive Committee in which the Supervisory Board can play its role as a sparring partner. The Executive Committee is responsible for the strategy but should listen carefully to the Supervisory Board. This is going very well in my opinion."

The Supervisory Board plays an important role in stakeholder management. In what way does the Supervisory Board shape this?

"It is important that the bank understands the challenges of its stakeholders. That sounds simpler than it is. You need to understand exactly how circumstances define the challenges and what financing structure suits them best. I expect the water authorities, for example, to come up with many innovations in the coming years that will contribute to their sustainable objectives. It is very important that you get a feel for them. Water authorities are a kind of balancing artist: they have to unite the interests of nature, industry and the farmer in the most sustainable way possible. There are more and more questions about the design of the Dutch infrastructural landscape. Is the layout good and is there the right balance between the various interests? There are enormous challenges here. Making the Netherlands more sustainable is also the bank's most important challenge. The bank must make choices and be selective. We cannot do everything.

I think the financing of WarmteStad Groningen in the past year is a good example of financial innovation. The municipality is involved, as is the drinking water company. In the past, we would have said that the municipality of Groningen would have to fully guarantee this, and only then would the bank grant a loan. We did not do that here. That is definitely a change in our thinking."

What points will require the attention of the Supervisory Board in 2020?

"The focus for 2020 is to build on our strategy. It is important to know what the bank stands for and what our mission is. We must continue to communicate this, both internally and externally. Ensuring internal involvement is a key focus for the coming year. Internal communication plays an important role in this, especially now that the bank is growing in size. In addition, it is important that we become even more closely involved with municipal, provincial and political authorities. I think it is important for our stakeholders in government to see what our added value is. Ultimately, the bank's story must also be supported politically. I think it is important for people to know the value of having set up the system this way with government guarantees that have never been invoked.

"Another, more technical, point of attention is that our 'know your customer' risk management is in order. The bank's employees are working hard on this and doing so as efficiently as possible."

What role does NWB Bank play in the Dutch financial landscape?

"NWB Bank has to justify its raison d'être over and over again. This is because the bank aims for social return rather than profit maximisation. We are pleased that it is now recognised in Europe that promotional banks have a different business model. It also means the bank is allowed to calculate its leverage ratio in a different way. This has enabled us to pay out dividend again."

Your term expires in April 2020. How do you look back on six years of chairmanship of the Supervisory Board?

"I look back on a great time. I was working as Executive Director at the IMF when I was asked to join the bank's Supervisory Board. I thought NWB Bank was a bank worth committing to at that time. A bank that is socially relevant. In recent years, the bank has gone through a major development: the number of employees has almost doubled, as has its balance sheet. In addition, there was a completely different Supervisory Board when I took office, also in terms of male/female distribution. The connection with the water authorities has become much stronger in recent years. I do not want to say that the water authorities had drifted away from us, but the bank had undergone rapid development. We needed to return to our foundation and connect with our shareholders. We had to provide evidence of our added value again, certainly because of the temporary suspension of dividend payments. We strengthened our ties by visiting water authorities much more often and creating mutual understanding. It is very important that that bond exists. I think it has only made us stronger. I also advised my successor to visit and listen to our shareholders to understand where their challenges lie.

"Finally, I would like to thank the bank's highly motivated employees. They are a great staff who are doing a fantastic job. I have always enjoyed working with the Managing Board."

How do you see the future of NWB Bank?

"The bank has taken a leap in terms of professionalisation in recent years. That was necessary and we have done well. We have taken solid steps in the area of governance, both in the Supervisory Board and the Managing Board. We are a strong bank with a well-designed strategy that has a clear niche in the Netherlands. NWB Bank is a Dutch bank to the core and has clearly proven its added value in recent years. The bank has partly reinvented itself within the new constellation of European supervision. This is also a model that is attracting a great deal of interest elsewhere. I look forward to the bank's future with confidence."

SUPERVISION

REPORT ON THE SUPERVISORY BOARD'S SUPERVISORY DUTIES

The Supervisory Board operates in accordance with the letter and spirit of the relevant legislation and regulations, and Dutch and European directives and codes. The Supervisory Board also fulfils the role of supervisor, adviser and employer for the Executive Committee. The members of the Supervisory Board consider it important to act independently within the team, both in relation to each other and to the Executive Committee.

Meetings

The Supervisory Board met with the Executive Committee seven times in 2019: six regular meetings and one strategy session. Virtually every meeting was attended by all members of the Supervisory Board, with an overall attendance rate of 98%. The Supervisory Board holds the first part of each meeting in private (i.e. without an Executive Committee). During this first part, the Supervisory Board briefly discusses environmental factors, observations of individual Supervisory Board members and the main objectives of the meeting. The results of the closed deliberations are then shared with the Executive Committee in the plenary part of the meeting. In 2019, the Supervisory Board met once in a closed session to discuss the assessment of the members of the Executive Committee.

The Supervisory Board also held a plenary meeting with the European and national supervisory authorities, in this case shaped by the Joint Supervisory Team (JST). The chair of the Supervisory Board, the chair of the Audit Committee and the chair of the Risk Committee also held separate consultations with the JST.

Key points in 2019

In 2019, the meetings of the Supervisory Board paid particular attention to:

Implementation of strategy for 2019-2023

The Supervisory Board regularly met with the Executive Committee to discuss the implementation of the medium-term strategy, which was adopted in 2018. In 2019, the Supervisory Board discussed the progress and implementation of the strategy with the Executive Committee in its annual strategy session, based on its role as supervisor and adviser. Extensive consideration was given to NWB Bank's three strategic pillars as the sustainable water bank:

1. bank of and for the public water sector;
2. key player in the financing of the Dutch public sector; and
3. financing partner for making the Netherlands more sustainable.

The foundation for this is laid by the sustainable, efficient and socially involved organisation and leads to a responsible and social return.

ATTENDANCE AT SUPERVISORY BOARD MEETINGS AND COMMITTEE MEETS IN 2019

	Age Bakker	Maurice Oostendorp	Petra van Hoeken	Toon van der Klugt	Frida van den Maagdenberg	Annette Ottolini	Manfred Schepers
Supervisory Board	7 of 7	7 of 7	6 of 7	7 of 7	7 of 7	7 of 7	7 of 7
Audit Committee	4 of 4	4 of 4	4 of 4	N/A	N/A	N/A	4 of 4
Risk Committee	N/A	4 of 4	4 of 4	N/A	3 of 4	N/A	4 of 4
Remuneration and Appointment Committee	3 of 3	N/A	N/A	3 of 3	N/A	3 of 3	N/A
Total	**14**	**15**	**14**	**10**	**10**	**10**	**15**
Attendance rate	100%	100%	93.3%	100%	90.9%	100%	100%

The bank puts the public good and long-term value creation at the heart of everything it does. The discussions focused in particular on the implementation of the third pillar (financing partner for sustainability in the Netherlands) and its consequences for the organisation. The Board also provided input on how to profile the bank as a sustainable water bank.

Resumption of dividends

In anticipation of political agreement on the European 'banking package', the Supervisory Board extensively considered resuming dividend distribution and the dividend policy at the beginning of the year. The banking package includes a proportional calculation of the leverage ratio for promotional banks, and as a result NWB Bank more than meets the minimum requirement of 3%. Against this background, the bank decided to resume dividend distribution after a seven-year suspension of dividends in the April AGM. This is in line with the responsible and social return that the bank aims to achieve.

Strengthening corporate governance

Executive Committee

The Supervisory Board focused explicitly on the governance around the newly formed Executive Committee (ExCo). With the creation of the ExCo at the end of 2018, the Board has achieved a split in the executive function 'finance & risk'. This brought the division of roles within the Managing Board in line with best practice in the banking world. The ExCo therefore consists of a CEO, CCO, CFO and CRO (non-statutory). Last year, the Board monitored and judged that the ExCo has formed a close-knit team and that the division of roles works well in practice. In doing so, the ExCo contributes to the sustainable, efficient and socially involved organisation of the bank.

Rotation of committee members

When Supervisory Board member Annette Ottolini took office in 2019, the staffing of the committees was reviewed. Frida van den Maagdenberg joined the Risk Committee and stepped down as a member of the Remuneration and Appointment Committee. At the same time, Age Bakker stepped down as member of the Risk Committee. His membership now includes the Audit Committee and the Remuneration and Appointment Committee. Annette Ottolini became a member of the Remuneration and Appointment Committee and Toon van der Klugt became chair of this committee. The membership of the other members of the Supervisory Board is unchanged.

Strengthening compliance and the ICAAP/ILAAP process

The Supervisory Board focused extensively on the Supervisory Review and Evaluation Process (SREP) results of 2018, the draft SREP results of 2019 and the follow-up of the resulting action points. These included strengthening the Compliance Risk Management Framework and improving the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) in line with the new ICAAP guidelines.

Preparing for project Green pass-through NHG RMBS

In 2019, the bank prepared for investments in Green pass-through NHG RMBS (securitised government-guaranteed mortgages) in line with the third pillar of the strategy 'Finance partner for making the Netherlands more sustainable'. By doing so, the bank aims to contribute to lower mortgage costs for owners of sustainable homes with a national mortgage guarantee. In 2019, the Supervisory Board was kept closely informed of the progress of the project. In April, the Supervisory Board approved the annual update of the Risk Appetite Statement, which includes a broader risk tolerance for a new category of risks. These risks are mainly related to investments in Green pass-through NHG RMBS.

Other tasks

Other subjects discussed by the Supervisory Board included developments in the financial markets, client relations and the introduction of a client portal, lending and funding, balance sheet and result developments, developments in legislation and regulations and ECB and Dutch Central Bank (DNB) supervision, the external auditor's report, and strategic policy. In addition to the regular reports and regular topics, the Supervisory Board devoted attention to compliance with the insider regulations, the budget and staff growth and capacity.

Relationship with shareholders

In 2019 there were two informal meetings with NWB Bank's shareholders in July and October, respectively. The chair or deputy chair of the Supervisory Board and the chair of the Managing Board were present. Topics discussed included the state of affairs at the bank with regard to dividend policy, the upcoming vacancy for a chair of the Supervisory Board and legislation and regulations.

In addition, the chair of the Supervisory Board and the chair of the Remuneration and Appointment Committee attended the shareholders' committee, which was established in 2019. This committee was established by order of the General Meeting to evaluate the remuneration policy for the bank's Managing Board in accordance with the applicable five-year cycle. The committee includes representatives of water authorities and the Ministry of Finance.

In 2019, the Supervisory Board held two meetings with the Participations Department of the Ministry of Finance. The chair of the Board held pre-AGM consultations with the chair of the Audit Committee. In the autumn, the chair held a meeting with the chair of the Remuneration and Appointment Committee. The Managing Board holds periodic quarterly meetings with the Participations Department of the Ministry of Finance.

COMMITTEE REPORTS

The Supervisory Board has three committees: the Audit Committee, the Risk Committee, and the Remuneration and Appointment Committee. These committees prepare decision-making in accordance with their own charters and advise the Supervisory Board on various subjects.

AUDIT COMMITTEE

The Audit Committee met four times in the past year in the presence of the Executive Committee and the internal and external auditors. The Head of Finance & Control is regularly invited to the meetings of the Audit Committee. In addition, prior to each meeting of the Audit Committee, a meeting is held between the chairman of the Audit Committee and both the internal and external auditors. The Audit Committee meets with the external auditor at least once a year without the Executive Committee's presence. Consultations with the internal auditor are also held at least once a year without the Executive Committee's presence.

During the year under review, the Audit Committee paid particular attention to the effects of low money and capital market interest rates, the updated IT management environment, the application of IFRS 9 under Dutch accounting standards, the hedge accounting model for the green NHG RMBS structure and the introduction of a minimum capital rule ('thin cap rule').

Together with the Executive Committee, the Audit Committee discussed the developments in European regulations regarding the definition of promotional banks and the related calculation of the leverage ratio at the beginning of the year in preparation for the discussion in the Supervisory Board. The 'banking package' ensured the bank would be able to meet the minimum requirements for the leverage ratio amply with the amended regulations. In view of the potentially substantial results as a result of the amended definition, a sensitivity analysis was requested to control the leverage ratio. Since the leverage ratio must also be reported on the basis of the standard definition, this ratio will also continue to require attention. With the entry into force of the new regulations on the horizon, room has been created to resume dividend payments. The Audit Committee advised favourably on the Executive Committee's intention to do so.

Regular topics of the Audit Committee were the budget, reporting by the external and internal auditors and ECB oversight findings.

RISK COMMITTEE

The Risk Committee met four times in the past year in the presence of the Executive Committee and the internal and external auditors. In addition, the Risk Committee meets with the external auditor at least once a year without the Executive Committee's presence. It also meets with the internal auditor at least once a year without the Executive Committee's presence.

The Risk Committee focuses on the design and operation of risk management and the internal risk management and control systems. More specifically, the operational risk (including extensive discussion on a number of new products, including project financing for renewable energy), credit risk management and interest rate risk management were discussed. The Risk Committee also paid attention to the non-financial risks, such as IT risk (cybercrime), reputational risk and information security.

In addition, the strengthening of the compliance function (including setting up a Compliance Risk Management Framework) and the leverage ratio obligation were regularly discussed. Regular topics of the Risk Committee are discussed each year: RAS, ICAAP/ILAAP (including new ICAAP guidelines in 2019) as input for the SREP, various stress scenarios, update Recovery Plan, ECB oversight findings, updates on the preparation of the benchmark reform and the reports of the external and internal auditors.

REMUNERATION AND APPOINTMENT COMMITTEE

The Remuneration and Appointment Committee met three times in the past year. The member of the Managing Board with HRM in the portfolio attends the committee's meetings.

At the beginning of the year, the Remuneration and Appointment Committee approved a diversity policy for the composition of the Supervisory Board and the Executive Committee. In 2019, the Supervisory Board and the Selection Committee, which is set up separately for each vacancy, also focused on recruiting a chair of the Supervisory Board. In addition, the Supervisory Board gave extensive consideration to the remuneration policy for the Managing Board. In mid-2019, a shareholders' committee was set up to evaluate the Managing Board's remuneration policy every five years. The Supervisory Board's wish to convert the variable remuneration into a fixed remuneration was taken into account. This is in line with general social developments and in line with the variable remuneration for employees that was abolished in 2018.

The shareholders' committee will advise the shareholders' meeting in April 2020.

In 2019, the chair of the Remuneration and Appointment Committee and the chair of the Supervisory Board held half-yearly and year-end meetings with each member of the Executive Committee. These talks covered both their individual performance and their performance as directors of NWB Bank. Feedback on these discussions takes place in the plenary board in a closed meeting.

The Remuneration and Appointment Committee also discussed 'key person risk', the adjustment of the pension scheme from an average pay scheme to a defined contribution scheme, training costs and the expansion of the workforce. Last year, too, the Remuneration and Appointment Committee was informed about the structure and results of the Strategic Personnel Planning (SPP). The aim of this was to be able to identify medium-and long-term HR needs (3-5 years) in relation to NWB Bank's strategy and external developments.

For a further explanation of the remuneration policy, see the **Remuneration Report** **(see page 92)** in this annual report.

INTERNAL ORGANISATION

COMPOSITION OF THE SUPERVISORY BOARD

The composition of NWB Bank's Supervisory Board is shown in chapter 2 and is in line with the desired diversity and complementarity of the team. The Supervisory Board consists of seven members, four of whom are men and three women, thus meeting the desired gender diversity. Further details are given in chapter 6 of this annual report.

SUPERVISORY BOARD'S AREAS OF EXPERTISE

AREAS OF EXPERTISE	Age Bakker	Maurice Oostendorp	Petra van Hoeken	Toon van der Klugt	Frida van den Maagdenberg	Annette Ottolini	Manfred Schepers
Banking/financial markets	X	X	X				X
Finance/accounting/ risk management		X	X		X		X
Regulations	X	X	X				X
ICT/cybersecurity			X	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		
Communications	X					X	

SUPERVISION OF QUALITY ASSURANCE

SELF-ASSESSMENT

In 2019, the Supervisory Board once again carried out its annual self-assessment with an online evaluation tool. Once every three years, this assessment takes place under independent external supervision. The last external self-assessment took place in 2018

Both the Supervisory Board and the Executive Committee have given their input for the self-assessment of the Supervisory Board. The results of this were discussed in a joint evaluation meeting. A number of points for improvement emerged from the discussion of the self-assessment of the Supervisory Board and its committees. One of these is gaining more insight into the culture of the organisation. In 2020, as in 2019, the Supervisory Board intends to hold a number of (lunch) meetings with the management team and NWB Young Professionals. Another point of attention concerns taking time out for broad social issues that are not on the agenda. The Supervisory Board intends to make explicit provision for this at the end or beginning of each meeting

In addition, in 2019 the Supervisory Board considered several points for improvement from its self-assessment for 2018. For example, more attention was paid to the results and progress made in achieving the strategy. There were also contacts within the organisation to get a better feel for the culture.

It can be concluded from the self-assessment that the Supervisory Board and its committees are functioning well, with independence (see chapter 6 for further explanation), expertise and diversity being evaluated positively. The Supervisory Board has been provided with good information by the Executive Committee, as a result of which it has been able to exercise its role as supervisor, employer and adviser satisfactorily. In addition, the interaction with the Executive Committee is characterised as excellent.

LIFELONG LEARNING

NWB Bank attaches great importance to lifelong learning. In that context, presentations by internal and external experts were again given to the members of the Supervisory Board and the Executive Committee in 2019. Furthermore, attention was paid to the themes of NWB Bank's client portal and the drinking water sector.

In addition, the Audit Committee and Risk Committee gave a presentation on the main conclusions regarding the Managing Board's decision to make use of the possibility to apply the 'expected loss impairment methodology' of IFRS 9 with effect from 1 January 2020. This presentation also addressed the credit assessment using scorecards.

Furthermore, in 2019 the members of the Executive Committee attended various training programmes and/or sessions in areas such as sustainable finance, climate, biodiversity, renewable energy, digital risk management, behavioural risk management, operational risk management, Wwft (Money Laundering and Terrorist Financing Prevention Act), dilemmas, financial and regulatory reporting, board effectiveness, ethics/integrity and governance.

Designated new members of the Supervisory Board and Managing Board follow an introduction programme. Attention is paid to bank-specific lending and funding issues, financial aspects including the supervisory frameworks, risk management issues, compliance, integrity and the IT infrastructure.

OTHER MATTERS

REAPPOINTED AND DEPARTING MEMBERS

At the meeting of the Supervisory Board in the summer of 2019, the Executive Committee and the Supervisory Board bade farewell to Peter Glas, who had resigned at the Annual General Meeting because he had reached the maximum term of office of eight years. Peter had been a member of the Supervisory Board since 2011, including time as deputy chair from 2012 to 2015 and chair of the Remuneration and Appointment Committee since 2015. The Supervisory Board would like to thank Peter for his keen eye, refreshing approach and important knowledge of the developments at the water authorities. With his appointment as Delta Programme Commissioner, he will continue his commitment to the water sector and the bank.

Age Bakker will step down as chair of the Supervisory Board at the Annual General Meeting of 2020, having reached the maximum term of office of eight years. The Supervisory Board is particularly grateful to Age for his excellent chairmanship. The Supervisory Board praises his broad social and political antenna and his inexhaustible commitment to the bank and its stakeholders. Under his chairmanship, both the Supervisory Board and the Managing Board were able to function optimally. Age is confident that the bank is in good shape and that his succession is in good hands.

The reappointment of Manfred Schepers as member of the Supervisory Board is also on the agenda of the Annual General Meeting of 16 April 2020.

ACKNOWLEDGEMENTS

The Supervisory Board would like to thank all employees and the Executive Committee for their efforts, and express its appreciation for the results achieved.

The Hague, 11 March 2020

Supervisory Board

Age Bakker
Maurice Oostendorp
Petra van Hoeken
Toon van der Klugt
Frida van den Maagdenberg
Annette Ottolini
Manfred Schepers

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REMUNERATION REPORT 2019

5. REMUNERATION REPORT 2019

NWB Bank wants its remuneration policy to reflect its social role as a bank of and for the public sector. It opts for a moderate and sustainable remuneration policy that fits the bank's strategy, low risk profile and risk appetite. As a result, the remuneration policy contributes to the realisation of the bank's long-term objectives aimed at long-term value creation. The policy is unambiguous and transparent and aims to attract and retain qualified and expert staff.

MANAGING BOARD REMUNERATION POLICY

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

FIXED REMUNERATION

An evaluation of the remuneration policy takes place every five years. In that context, a shareholders' committee was formed in 2019 to evaluate the remuneration policy. The committee reaffirmed the principles of the remuneration policy adopted in 2015. Following the request of the Supervisory Board, the committee agreed to abolish variable remuneration. The Supervisory Board took two considerations into account:

- Alignment with developments in the Dutch banking sector and society's perception of variable remuneration. The majority of Dutch banks have now abolished elements of variable remuneration ('bonuses') while offsetting them in fixed remuneration.
- The same rules for management and employees. In 2018, the variable remuneration for employees was abolished and compensated in a supplement to the fixed salary. This evaluation offers the first possible opportunity to create a level playing field for the Managing Board.

Thus, at the Annual General Meeting on 16 April 2020, a proposal will be put forward to abolish the variable remuneration with retroactive effect as of 1 January 2019. The proposal will recommend converting the current maximum 15% variable remuneration into an 11.1% fixed supplement on top of the fixed remuneration. This fixed supplement is not pensionable.

The policy – which was last amended on 14 September 2015 and applies to the members of the Managing Board appointed on or after that date – stipulates a maximum salary of €272,000, including the variable component. After indexation and incorporating the conversion of the variable remuneration in accordance with the proposed 2020 remuneration policy, the chair's fixed salary as at 1 January 2019 is €276,093. A maximum of 85% of this amount applies to the other members of the Managing Board. Indexation takes place annually in accordance with the structural salary adjustment, as stated in the Collective Labour Agreement (CLA) for the Banking Sector. In formulating the proposed 2020 remuneration policy, the committee took note of the vision of the members of the Managing Board regarding the amount and structure of their remuneration. The conclusion is that the members of the Managing Board agree with the proposed 2020 remuneration policy.

VARIABLE REMUNERATION

As mentioned above, the Annual General Meeting on 16 April 2020 is expected to abolish the variable remuneration of members of the Managing Board with retroactive effect from 1 January 2019. The variable remuneration of the members of the Managing Board under the policy until 1 January 2019 amounted to a maximum of 15% of the fixed remuneration. This variable remuneration had a deferred portion of 33%. The deferred portion is paid out in the fourth year after the year to which it relates, provided the previously agreed long-term targets have also been achieved. The last assessment of the long-term objectives from 2018 and whether the deferred portion will be made payable (in full or in part) will therefore take place in 2022.

PENSIONS

Until 2019, the pension benefits of NWB Bank's Managing Board members – and its employees – are administered under the NWB Bank group pension plan, which has been insured with an insurance company. The bank has a defined benefit scheme 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 €107,593. 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.

In connection with the expiry of the pension insurance contract at year-end 2019, last year the bank examined the continuation and design of the pension scheme. In close consultation with the Works Council, the Managing Board explored the various options. The cost of continuing the insured defined benefit scheme was found to have risen sharply due to the increase in the guarantee fees as a result of lower interest rates and increased life expectancy. This could also jeopardise the bank's ability to index in the future. This is in accordance with the problems at the pension funds. The Managing Board concluded that a transition to a defined contribution scheme was the best option from the perspective of the bank and its employees. The Works Council and the Supervisory Board have agreed and approved this defined contribution scheme, respectively. The existing rights under the defined benefit scheme have been made non-contributory.

OTHER TERMS AND CONDITIONS OF EMPLOYMENT

The bank has made an electric 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 2019

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 a 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 and including the conversion of the variable remuneration into a fixed allowance: €276,093 from 1 January 2019) applies to the chair and a maximum of 85% of that amount applies to the other members of the Managing Board (after indexation and including the conversion of the variable remuneration into a fixed allowance: €234,680 from 1 January 2019). Frenk van der Vliet, who has been employed as a Managing Board member since 1 January 2012, is subject to the remuneration policy applicable before 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 and including the conversion of the variable remuneration into a fixed allowance: €247,071 from 1 January 2019). Indexation of 2.5%, equal to the structural salary adjustments laid down in the CLA, took place in 2019.

REMUNERATION OF THE MEMBERS OF THE MANAGING BOARD

(in thousands of euros)	Fixed remuneration	Payment of the deferred component of the 2016 variable remuneration	Pension contribution	Other[1]
2019				
Lidwin van Velden	276	11	37	39
Frenk van der Vliet	247	11	35	33
Melchior de Bruijne[2]	235	N/A	28	20
Total	**758**	**22**	**100**	**92**

1) Other includes the following remaining remuneration: i) a partly taxed expense allowance of €2,800, ii) an allowance under the employee mortgage loan discount plan: €3,000 for Lidwin van Velden, €3,000 for Frenk van der Vliet and €7,000 for Melchior de Bruijne, iii) a contribution for the net pension scheme: for Lidwin van Velden €24,000, for Frenk van der Vliet €20,000 and for Melchior de Bruijne €11,000, iv) compensation for the harmonisation of the pension plan as of 1 January 2015: for Lidwin van Velden €9,000 and for Frenk van der Vliet €10,000.
2) Joined NWB Bank on 1 December 2018.

Menno Snel, chairman of the Managing Board from 1 September 2016 until his departure on 25 October 2017 in connection with his appointment as State Secretary of Finance, will receive the deferred portion of the variable remuneration 2016 of €3,942. As in previous years, Ron Walkier, chair of the Managing Board until April 2016, waived his variable remuneration, in this case the deferred component of the 2016 variable remuneration, given the suspension of dividend distributions in 2016.

(in thousands of euros)	Fixed remuneration	Variable remuneration	Payment of the deferred component of the 2015 variable remuneration	Pension contribution	Other[1]
2018					
Lidwin van Velden	235	24	9	36	38
Frenk van der Vliet	217	22	9	34	34
Melchior de Bruijne[2]	17	N/A	N/A	2	1
Total	**469**	**46**	**18**	**72**	**73**

1) Other includes the following remaining remuneration: i) a partly taxed expense allowance of €2,800, ii) an allowance under the employee mortgage loan discount plan: €3,000 for Lidwin van Velden, €1,000 for Frenk van der Vliet and nil for Melchior de Bruijne, iii) a contribution for the net pension scheme: for Lidwin van Velden €24,000, for Frenk van der Vliet €20,000 and for Melchior de Bruijne €1,000, iv) compensation for the harmonisation of the pension plan as of 1 January 2015: for Lidwin van Velden €8,000 and for Frenk van der Vliet €10,000.
2) Joined NWB Bank on 1 December 2018.

DEFERRED COMPONENT OF 2016 VARIABLE REMUNERATION

In February 2020, the Remuneration and Appointment Committee compared NWB Bank's actual results with the long-term targets formulated in 2016 (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 remain strong). 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 2015 to 2019. On the proposal of the Remuneration and Appointment Committee, the Supervisory Board decided to release the deferred component (see the above breakdown). As stated earlier, Ron Walkier, as former chair of the Managing Board, waived the deferred component of his 2016 variable remuneration given the suspension of dividend distributions in 2016.

EMPLOYEE REMUNERATION POLICY

The employee remuneration policy applies in full to all employees, irrespective of their positions or job scales. NWB Bank applies the Collective Labour Agreement (CLA) for the Dutch banking industry. The fixed remuneration comprises 12 monthly salaries, 8% holiday allowance and a 13th month's salary payment. Indexation occurs in line with the structural salary adjustments laid down in the CLA for the banking industry. To compensate for the abolished variable remuneration, employees have been receiving an allowance of 10.745% in addition to their salaries since 1 January 2018. This allowance is not pensionable.

PENSIONS

Up until 2019, the pension benefits of the employees – and the members of the Managing Board – have been administered under the NWB Bank pension plan, which is insured with an insurance company. The bank has a defined benefit scheme for both employees and members of the Managing Board, to which a members' own contribution applies. The bank offers a net pension plan for salaries exceeding €100,000 (as of 2019: €107.593).

As mentioned above regarding the Managing Board's pension plan, the bank switched to a defined contribution plan on 1 January 2020. The existing rights under the defined benefit scheme have been made non-contributory.

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 'G4-54'. According to this standard, the pay ratio is the ratio between the total remuneration of the highest-paid employee and the median of the total remuneration of all other employees. The total remuneration comprises the fixed and variable remuneration and current service costs.

The fixed remuneration of the employees in 2019 comprises 12 monthly salaries (reference date: 31 December 2019), 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 2019, the members of the Managing Board received variable remuneration comprising the short-term variable remuneration for 2018 and long-term variable remuneration for 2015. The service costs consist of the components 'average pay costs up to €107,593 minus the employer's contribution', 'the employer's contribution above €107,593 minus the employee's contribution' and 'compensation for the old pension plan (before 2015), where applicable'.

Based on the above principles, the pay ratio between the CEO and the median of NWB Bank's other employees is 3.8 for 2019 (2018: 3.9). This is a low ratio compared with those of 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 out in the CLA for the banking industry (1.5% as at 1 January 2018 and 2.5% as at 1 January 2019):

(in thousands of euros)	2019	2018
Chair + committees	38	37
Deputy chair + Audit Committee + Risk Committee	24	23
Member + Audit Committee + Risk Committee	24	23
Member + Remuneration and Appointment Committee	24	23

These amounts include expense reimbursements.

The remuneration of the Supervisory Board has no variable components or options plans. The remuneration policy will be reviewed every five years. The next review is scheduled to take place during the 2022 General Meeting.

The remuneration of individual Supervisory Board members was as follows:

(in thousands of euros)	2019	2018
Age Bakker [1),2),3)]	38	37
Maurice Oostendorp [2),4),5)]	24	23
Peter Glas [6)]	7	23
Petra van Hoeken [2),4)]	24	23
Toon van der Klugt [3)]	24	23
Frida van den Maagdenberg [4),7)]	24	23
Annette Ottolini [8),3)]	17	-
Manfred Schepers [2),4)]	24	23
Total	**182**	**175**

1) Chair
2) Member of the Audit Committee
3) Member of the Remuneration and Appointment Committee
4) Member of the Risk Committee
5) Deputy chair
6) Peter Glas stepped down on 18 April 2019
7) Frida van den Maagdenberg is transferring her remuneration to the Academic Medical Centre, where she is a member of the Board of Directors
8) Annette Ottolini was appointed a member of the Supervisory Board on 18 April 2019

The above amounts exclude travel expense allowances and VAT.

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CORPORATE GOVERNANCE

6. CORPORATE GOVERNANCE

As a bank of and for the public sector, NWB Bank has a special responsibility to society. In terms of corporate governance, this means 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 are not only compliant with the Dutch Corporate Governance Code, but also with the Dutch Banking Code, the Code of Conduct set out in the 'Future-Oriented Banking' package issued by the Dutch Banking Association (NVB), the EBA (European Banking Association) Guidelines on internal governance, and 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 ensuring compliance with the governance principles.

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 pertains to management and control, responsibility, and monitoring and accountability.

The Dutch Corporate Governance Code applies 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 the Executive Committee and Supervisory Board members.

SUPERVISORY BOARD

The Supervisory Board and its committees operate according to regulations, 'charters'. These charters contain, among other things, rules governing its composition, the division of duties and the working method. In addition, the charters contain provisions on conflicts of interest and dealing with the Executive Committee and the shareholders. The charters were updated in early 2019. One of the reasons for this was the entry into force of the revised European Banking Association (EBA) Guidelines on internal governance.

COMPOSITION AND PROFILE

The Supervisory Board consists of seven members, four of whom are men and three are women. In accordance with the retirement schedule and with due observance of the Articles of Association, Age Bakker will step down as chairman of the Supervisory Board at the General Meeting of Shareholders to be held on 16 April 2020. He will step down as he has reached the maximum term of eight years. With the intended appointment of Age's successor, the Supervisory Board will consist of three men and four women with a male/female ratio of 43/57%. This satisfies the statutory provision of at least 30% male and 30% female members in 2019.

For the Supervisory Board, an overall profile has been drawn up to guide 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 and further aligned with, among others, the Articles of Association and the requirements of the Dutch Corporate Governance 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.

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. Diversity and balance in the composition are sought. Age, gender, expertise and social background play a role in this. In striving for diversity in its composition, the council drew up a diversity policy for the composition of the Supervisory Board and the Executive Committee at the beginning of 2019.

Supervisory Board members must have an eye for (international) social, economic, political and other developments that are relevant to NWB Bank. They must also be able to assess them. The current composition of the Supervisory Board is assessed as balanced, competent and diverse.

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. Toon van der Klugt has ample experience in public administration and government policy, as well as networks in government circles. Frida van den Maagdenberg and Annette Ottolini have general experience with administration in the semi-public sector and extensive knowledge of finance and ICT. Frida brings extra financial knowledge and Annette has additional experience in a commercial environment. A balanced and diverse composition of the Supervisory Board is thus guaranteed.

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. In 2019, the Supervisory Board engaged an external agency to recruit a new chair of the Supervisory Board. The Supervisory Board consults internal and external experts on lifelong learning courses and obtains relevant information by attending Works Council meetings.

INDEPENDENCE

The Supervisory Board believes its composition is such that its members can 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 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) regarding a sufficient number of independent Supervisory Board members. Furthermore, the Supervisory Board considers 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 one Supervisory Board member, Petra van Hoeken, in the year prior to her reappointment, 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.

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. In 2018, the Managing Board governance structure was changed into an Executive Committee (ExCo), which operates under the Executive Committee Charter. 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.

The ExCo comprises four members: statutory members Lidwin van Velden (CEO), Melchior de Bruijne (CFO) and Frenk van der Vliet (CCO), as well as non-statutory member Ard van Eijl (CRO). Like the Supervisory Board, the Managing Board must be composed in accordance with the diversity policy. The male-female ratio on the Managing Board pursuant to the Articles of Association now stands at two-thirds to one-third. This means that the bank meets the applicable statutory provision in 2019 in respect to a balanced male-female ratio of least 30% men and 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.

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. During the past year, no situations occurred in which potential conflicts of interest could have arisen.

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 Managing 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

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; and
- contributing to society's confidence in the bank.

NOTES ON OTHER FOCUS AREAS

The following paragraphs address several focus areas concerning corporate governance. They also address whether, and if so in what way, further steps have been taken in the 2019 reporting period compared with 2018.

WORKS COUNCIL

NWB Bank has a Works Council. The Works Council operates according to 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 2019. The HRM department was also represented at those consultative meetings. The chair of the Supervisory Board attended a consultation meeting between the Managing Board and the Works Council once together with the chair of the Remuneration and Appointment Committee and once together with the deputy chair.

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 and strives for a culture in which transparency, diversity and a spirit of change are the norm. In this context, in 2019 the management team set to work on an interactive change programme.

In the context of the 'responsible behaviour theme', training courses were organised for all employees on the topics of 'dilemmas' and 'operational risk management'. In addition, consideration was given to the necessary development of the organisation to be able to achieve the bank's strategic objectives using Strategic Personnel Planning (SPP). The SPP provides insight into whether the knowledge, skills, development opportunities and ambitions of employees are sufficiently in line with the bank's needs and required capacity in the short and medium term.

An employee satisfaction survey was held in late 2019 and will be evaluated in 2020.

NWB Bank's culture is characterised by professionalism, engagement and openness. Matters that received attention in 2019 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. This year, meetings were held on sustainability (in which the chairman of the Risk Committee also participated), virtual reality, worst economic scenario, the NWB Fund and a meeting in the context of integrity week.

In the context of conduct and culture, Executive Committee members and employees are encouraged to obtain frequent 360-degree feedback to assist them with their personal development and provide them with insight into their performance.

LONG-TERM VALUE CREATION

NWB Bank is alert to market and other developments and to changing client and stakeholder needs. Where possible, the bank responds to them by providing solutions, for example, in the form of new products or services or by sharing knowledge. 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 appropriate financing of the public sector in an inexpensive and sustainable way.

The bank adopted a medium-term strategy in 2018, one of the objectives of which is to meet the changing needs of its customers. Last year was dominated by the implementation of this strategy. The bank started to finance more risky projects in order to play a role in making the Netherlands more sustainable and to emphatically not remain on the sidelines. This major social challenge calls for other forms of financing and cooperation with other parties. This is one of the reasons the bank is exploring opportunities for cooperation with Invest-NL, which was set up in January 2020. This organisation focuses primarily on projects that contribute to the 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 its clients and society are confident in the organisation and the integrity of the bank's dealings with its business contacts. Accordingly, 'conscious, committed and credible' 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. The bank has also set up a client portal in which information is shared and clients can carry out financial analyses.

COMPLIANCE AND INTEGRITY

In 2018, the compliance function was separated from the legal & corporate affairs department and made independent with a direct reporting line to the Managing Board. The compliance function aims to promote, monitor and ensure compliance not only with laws and regulations, but also with the internal procedures and rules of conduct that are relevant to the organisation's integrity and associated reputation. The function was further strengthened in 2019 by the establishment of a Compliance Risk Management Framework. An officer was also added to the compliance unit in early 2020. The compliance function tasks are laid out in the Compliance Charter.

As part of its annual audit plan, the internal audit department carries out compliance audits to assess whether the bank complies with the relevant laws and regulations. This means the bank ensures it complies with all relevant laws and regulations, internal procedures and rules of conduct. It also examines how the bank ensures procedures and rules of conduct are effective and correctly applied within the organisation.

INTERNAL AUDIT

NWB Bank's internal audit function lies with the internal audit department (iad). The mission of internal audit is to improve and protect the value of an organisation by providing risk-based and objective assurance, recommendations and insights.

The iad offers independent and objective insurance services. These services are intended to provide added value and improve the activities of NWB Bank. The iad helps NWB Bank achieve its objectives by evaluating and improving the effectiveness of its governance, risk management and control processes based on a systematic and disciplined approach.

At the request of the Managing Board, the head of the iad, as a non-voting member, can participate in steering committees of projects of strategic importance. The mandate of the iad is laid out in the Audit Charter, which has been approved by the Supervisory Board. The head of the iad reports the results of the investigations primarily to (the chair of) the Managing Board and has a functional reporting line to (the chair of) the Audit Committee. The head of the iad participates in meetings of the Audit Committee and the Risk Committee. The progress of the audit reports is discussed here on a quarterly basis.

In 2019, the iad fleshed out the tripartite consultation by holding consultations with the external auditor at various points in time and separately with the ECB/DNB regulator. During these discussions, an exchange of views took place on risk analysis, findings and the audit plan.

The iad operates under 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.

EXTERNAL AUDITOR

In addition to the internal auditor, the external auditor attended all meetings of the Audit Committee and the Risk Committee. The Audit Committee held one separate meeting with the external auditor in 2019. In addition, the annual meetings of the Audit Committee and Risk Committee were held with the head of iad and the external auditor. These consultations explicitly addressed points for attention, as did the mutual relationships.

In 2019, as in 2018, EY audited the annual accounts of NWB Bank in its capacity as external auditor.

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 12 months following the drawing up of the report. The internal risk controls and systems provide reasonable assurance that NWB Bank's financial reports are free from material misstatements. The risk governance section of the Report of the Managing Board and the risk management section of the financial statements contain a substantiation of the in-control statement.

STATEMENT OF THE MANAGING BOARD

The Managing Board hereby states that, to the best of its knowledge, the financial statements give a true and fair view of the bank's assets, liabilities, financial position and profit. Based on the current state of affairs, the financial statements were justifiably drawn up on a going-concern basis. The Managing Board also states that, to the best of its knowledge, the Report of the Managing Board includes a fair view of the bank's position at the balance sheet date and of its development and performance during the financial year, as well as a description of the principal risks the bank faces.

The Hague, 11 March 2020

Managing Board

Lidwin van Velden
Melchior de Bruijne
Frenk van der Vliet

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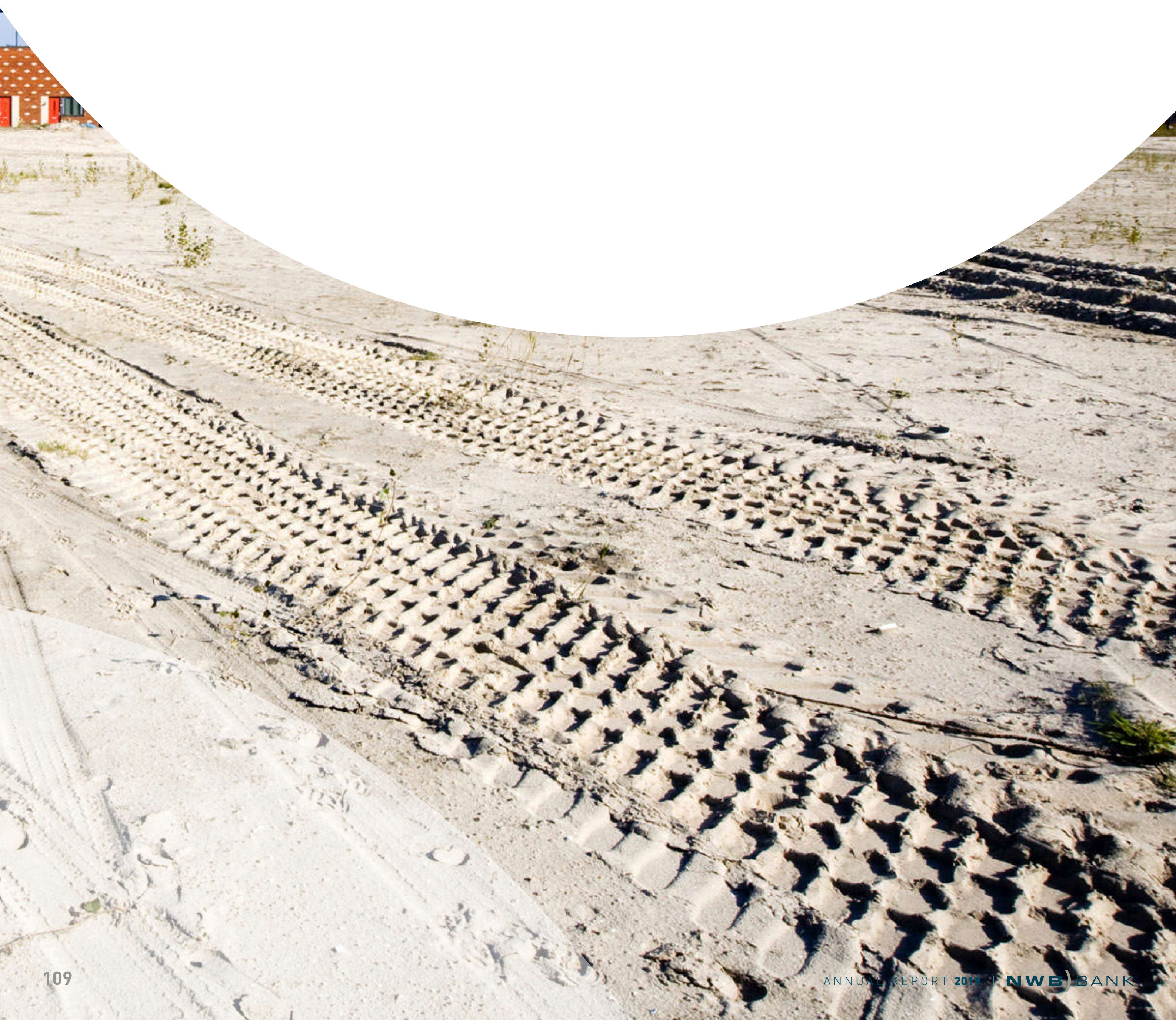
FINANCIAL STATEMENTS



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STATEMENT OF INCOME

for the year ended 31 December 2019

(in millions of euros)	Note	2019	2018
Interest and similar income		1,668	1,567
Interest and similar expenses		1,455	1,333
Net interest income	**1**	**213**	**234**
Results from financial transactions	2	-39	-48
Other operating income		-	-
Total operating income		**174**	**186**
Employee benefits expense	3	12	10
Other administrative expenses	4	13	10
Employee benefits and other expenses		**25**	**20**
Depreciation, amortisation and value adjustments of tangible and intangible assets	5	2	2
Bank tax and resolution levy	6	22	27
Total operating expenses		**49**	**49**
Profit from ordinary operations before tax		125	137
Tax on profit from ordinary operations	7	38	37
Extraordinary income	8	11	-
Tax on extraordinary income	7	3	-
Net profit		**95**	**100**

BALANCE SHEET

as at 31 December 2019 before profit appropriation

(in millions of euros)	Note	2019	2018
Assets			
Cash, cash equivalents and deposits at the Central Bank	9	8,290	10,237
Banks	10	8,075	4,590
Loans and receivables	11	69,963	61,405
Interest-bearing securities	12	4,711	3,291
Intangible assets	13	5	3
Tangible assets	14	5	5
Income tax	22	12	8
Other assets	15	10	4
Derivative assets	16	5,125	4,163
Prepayments	17	9	9
Total assets		**96,205**	**83,715**
Liabilities			
Banks	18	1,646	1,523
Funds entrusted	19	6,802	6,528
Debt securities	20	73,289	66,300
Provisions	21	24	27
Other liabilities	23	24	30
Derivative liabilities	24	12,298	7,252
Accruals	25	-	3
		94,083	**81,663**
Subordinated debt	26	**326**	**326**
Paid-up and called-up share capital	27	7	7
Revaluation reserves	28	1	1
Other reserves	29	1,693	1,618
Unappropriated profit for the year	30	95	100
Equity		**1,796**	**1,726**
Total liabilities		**96,205**	**83,715**
Irrevocable commitments	31	3,761	3,759

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

(in millions of euros)	Note	2019	2018
Net changes in the revaluation reserves	28	-	-3
Net changes in other reserves	29	-7	1
Income tax on income and expenses recognised directly in equity		2	-1
Income and expenses recognised directly in equity		**-5**	**-3**
Net profit		95	100
Comprehensive income		**90**	**97**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

(in millions of euros)	Paid-up share capital	Revaluation reserves	Other reserves	Unappropriated profit for the year	**Total**
As at 1 January 2019	**7**	**1**	**1,618**	**100**	**1,726**
Profit appropriation of previous year	-	-	100	-100	-
Dividend	-	-	-20	-	-20
Direct change in the value of equity	-	-	-5	-	-5
Profit for the year	-	-	-	95	95
As at 31 December 2019	**7**	**1**	**1,693**	**95**	**1,796**
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 2019

(in millions of euros)	Note	2019	2018
Profit before income tax		136	137
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		-47	43
Change in bank loans and receivables not available on demand	9, 18	-3,399	4,527
Change in public sector loans and receivables	11	-1,802	96
Change in funds entrusted	19	275	424
Change in other assets and liabilities		-1,053	-3,799
Net cash flow from operating/banking activities		**-5,888**	**1,430**
Additions to interest-bearing securities	12	-3,661	-1,601
Sale and redemptions of interest-bearing securities	12	2,315	2,017
		-1,346	**416**
Additions to tangible assets	14	-1	-1
Disposals of tangible assets	14	-	-
		-1	**-1**
Additions to intangible assets	13	-3	-2
Net cash flow from investing activities		**-1,350**	**413**
Long-term debt securities issued	20	9,702	10,190
Redemption of long-term debt securities	20	-12,131	-9,790
Short-term debt securities issued	20	126,448	162,393
Redemption of short-term debt securities	20	-118,708	-164,036
		5,311	**-1,243**
Dividend paid	30	-20	-
Net cash flow from financing activities		**5,291**	**-1,243**
Cash flow		**-1,947**	**600**
Cash and cash equivalents as at 1 January		10,237	9,637
Cash flow		-1,947	600
Cash and cash equivalents as at 31 December		**8,290**	**10,237**

The cash and cash equivalents include deposits at the Central Bank and current account balance receivables from credit institutions. In 2019, the interest paid amounted to €1,326 million (2018: €1,306 million) and the interest received amounted to €1,522 million (2018: €1,488 million). These amounts are included under 'Other assets and liabilities' in the statement of cash flows. In 2019, the income tax paid amounted to €49.5 million (2018: €49.2 million) and the bank tax paid amounted to €17.1 million (2018: €17.7 million).

GENERAL NOTES TO THE FINANCIAL STATEMENTS

CORPORATE INFORMATION

The 2019 financial statements of Nederlandse Waterschapsbank N.V. (hereinafter: NWB Bank, Chamber of Commerce no. 27049562) were prepared by the Managing Board and authorised for issue by the Supervisory Board on 11 March 2020 and will be submitted for approval to the Annual General Meeting of Shareholders on 16 April 2020.

NWB Bank is a public limited liability company under Dutch law located at Rooseveltplantsoen 3, 2517 KR in The Hague, the shares of which are owned by public authorities. NWB Bank's services benefit the public sector. In addition to financing water authorities and municipal and provincial authorities, it also finances 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 Part 9, Book 2 of the Dutch Civil Code and the generally accepted accounting principles in the Netherlands (NL GAAP). NWB Bank has no participating interests and prepares company financial statements.

SUMMARY OF KEY ACCOUNTING POLICIES

General

The financial statements have been prepared on the basis of historical cost, with the exception of certain interest-bearing securities, derivatives and property. The specific interest-bearing securities and properties are stated at fair value. The costs and revenue are allocated to the period in which they were incurred or earned. The financial statements are presented in millions of euros, and all amounts in the 'General notes to the financial statements' are rounded to the nearest thousand (€ 000), unless stated otherwise.

The names of a number of items used in the Financial Statements Formats Decree have been replaced by names that 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 in the balance sheet if its future economic benefits are likely to flow to the company and the asset can be measured reliably. A debt is recognised in the balance sheet if it is likely that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Financial assets and liabilities (except for the principal of loans) are recognised at the transaction date. This means that a financial asset or financial liability is recognised in the balance sheet from the time that that the company is respectively entitled to the benefits or bound by the obligations arising from the the contract terms of the financial instrument. The principal of a loan 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 debt 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 debt has arisen that can be measured reliably.

Derecognition of financial assets and liabilities

An asset or debt presented in the balance sheet continues to be recognised when a transaction does not result in a significant change in the economic reality with respect to such an asset or debt. Likewise, such transactions should not be used to justify results.

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

Measurement

Upon initial recognition, financial assets and liabilities are stated at fair value, including or excluding, respectively, transaction costs directly attributable to the financial asset's or financial liability's acquisition or issue, except for transactions recorded at fair value and recognised through profit or loss. The transaction costs directly attributable to these balance sheet items are taken directly to profit of 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. The fair value of most of NWB Bank's financial instruments cannot be established on the basis of a relevant middle rate because there is no listing or active market. NWB Bank calculates the fair value of these other financial instruments using models.

The models use various assumptions relating to the discount rate and the timing and the size of the projected future cash flows. Option pricing models have been used to calculate the fair value of options.

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

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

Hedge accounting

The bank uses financial instruments to hedge most interest rate and foreign exchange risks related to financial assets and liabilities. In terms of market value, value changes due to interest rate and foreign exchange fluctuations are offset. Under hedge accounting, the recognition of a hedging instrument and the accompanying hedged position can be synchronised insofar as the hedging is effective. Hedge accounting is permitted only if adequate documentation has been prepared and the required effectiveness of the hedge is demonstrated. NWB Bank only uses derivatives as hedging instruments, 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 by multiple derivative financial instruments for interest rate risk purposes. While there is not always a one-on-one relationship between the hedged item and the hedging instrument at an individual level, it is demonstrated at a portfolio level that the derivative financial instruments in question offset the fair value changes caused by interest rate fluctuations.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into euros at the middle rates at the balance sheet date (published by the ECB). The use of middle rates is connected to NWB Bank's policy, which states that all foreign currency positions are hedged individually, and which effectively causes the day-to-day flows of foreign currency funds to be virtually nil.

Gains or losses arising from transactions in foreign currencies are translated at the rates prevailing 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 prevailing on the balance sheet date. The changes in value are recorded under 'Results from financial transactions'.

Cash, cash equivalents and deposits at the Central Bank

Cash, cash equivalents and deposits at the Central Bank are stated at amortised cost.

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

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

Other interest-bearing securities

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

Other listed interest-bearing securities are stated at fair value. As long as the value change of an individual interest-bearing security is positive, it is recorded directly in equity until the time of realisation. Once the interest-bearing security in question is derecognised, the cumulative unrealised gain or loss on an individual asset that was recorded directly in equity is taken to profit or loss. Any cumulative decrease in value below cost is immediately taken to profit or loss. Any subsequent unrealised increase in value of the relevant interest-bearing security is taken to profit or loss if it is below amortised cost. Any increase in value above amortised cost is recorded in equity.

If interest-bearing securities are included in a fair value hedge relationship, then the effective part of the hedge is recognised in profit and loss, rather than equity. If financial assets are derecognised, then the cumulative profit recognised in equity or the cumulative loss is recognised in profit or loss.

Intangible assets

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

Tangible assets

Tangible assets are property and equipment. 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 periodically based on valuations conducted by independent property valuers. Depreciation of these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

The annual depreciation rates are as follows:

Building	2.5%
Fixtures and installations	10%
Equipment, furniture and fittings, etc.:	
• furniture and fittings, etc.	10%
• office equipment	20%
Computer equipment	20%
Cars	20%

Land is not depreciated.

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

Derivatives

A derivative is a financial instrument with the following characteristics:

- The value changes as a result of changes in market factors, such as an interest rate, the price of a financial instrument, an exchange rate, creditworthiness or other variable (the underlying value).
- No net initial investment or only a minor net initial investment is required compared with other types of contracts that respond in a similar way to changes in the market factors mentioned.
- It is settled at a future date.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. Any discrepancies between a financial instrument's fair value and the value under the bank's measurement models are amortised over the instrument's term. Derivatives are subsequently remeasured at fair value including accrued interest. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised in profit or loss under the item 'Results from financial transactions'. Generally accepted measurement models are applied, based on the most appropriate valuation curves, 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 both included in the balance sheet under the host contracts to which they belong and carried at fair value, with changes in value being taken to profit or loss. Contracts are assessed only when the transaction is effected, unless the terms of a contract change such that expected cash flows are significantly impacted.

Banks, funds entrusted, 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 on Employee Benefits, NWB Bank applies the FRS-EU standard on pensions and other post-retirement benefits (IAS 19) in full.

In 2019, NWB agreed with its employees to implement a change in the benefit pension plan. From 1 January 2020, active employees will be part of a defined contribution plan. Until 31 December 2019, NWB Bank had agreed a defined benefit plan with its employees.

The pension plan for inactive employees is funded by premiums paid to an insurance company based on regular actuarial calculations.

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

Netting of financial assets and financial liabilities

A financial asset and a financial liability are offset and reported on a net basis if there is a legally enforceable right to offset the recognised amounts and if there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

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

Net interest income

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

Income tax

Income tax is recognised as an expense 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 offset, and the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced if it is no longer probable that sufficient taxable profit is 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 is 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 the preparation of the statement of cash flows

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

Cash and cash equivalents represent 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.

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. Long-term loans (terms > 1 year) and short-term loans (terms < 1 year) taken out and repaid are classified as a financing activity.

Segment information

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

Significant assumptions and estimation uncertainties

The preparation of the financial statements requires that the Managing Board forms opinions and makes estimates and assumptions that impact the application of accounting policies and the reported value of assets and liabilities as well as income and expenses. The estimates and associated assumptions are based on experience, market information and 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

NWB Bank prepares its financial statements according to NLGAAP requirements and from 1 January 2020 onwards will begin to use the IFRS's expected loss impairment methodology.

This new impairment method replaces the incurred loss model with an expected credit loss approach. The new impairment model applies to all exposures held under financial assets at amortised cost, interest-bearing securities with value changes stated at fair value recorded directly in equity, and irrevocable commitments and contracts concerning financial guarantees.

Under IFRS 9, said exposures are classified into three groups based on the various stages of credit risk. Stage 1 includes exposures that show no significant change in credit risk since their initial recognition. A 12-month expected credit loss is recognised for this group, being the expected credit loss based on the probability of default within 12 months of the reporting date. Stage 2 includes exposures that show a significant increase in credit risk since initial recognition but which have not defaulted yet. A lifetime expected credit loss is recognised for these exposures. This concerns the expected shortfalls on the contractual cash flows for the remaining duration of the exposure, discounted at the effective interest rate. Stage 3 includes exposures that have actually defaulted. A lifetime expected credit loss is recognised for these exposures on an individual basis, taking into account any guarantees and received collateral. This is comparable to the way individual impairments are currently calculated for exposures in default.

These impairment rules increase the complexity and degree of professional judgement needed to develop a robust expected credit loss calculation. This pertains to, among other things, determining the probability of default, the loss given default, and the exposure at default in the future. In addition, forward-looking information regarding macro-economic factors must be taken into account.

Given the risk profile of NWB Bank's counterparties, until now there has been no provision for uncollectible receivables in the incurred loss model. Because the scope of the new impairment risk system is greater and the calculations by definition lead to a provision, the bank expects a limited impact on the scope of the bank's net assets.

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.

	2019	2018
Interest income on cash, cash equivalents and deposits at the Central Bank and on loans and receivables at amortised cost	1,609,514	1,534,656
Interest income on interest-bearing securities	13,384	19,566
Commission	654	1,269
Negative interest expense	44,684	11,460
Interest income	**1,668,236**	**1,566,951**
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	459,044	403,089
Derivatives (net interest income/expense)	713,470	766,307
Negative interest income	282,836	163,459
Interest expense	**1,455,350**	**1,332,855**
Net interest income	**212,886**	**234,096**

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 offset the fair value changes caused by interest rate fluctuations.

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

	2019	2018
Changes in the fair value of derivatives included in macro-hedge accounting	-5,574,499	-173,893
Revaluation of financial assets and liabilities included in macro-hedge accounting	5,567,349	175,740
Macro hedge accounting ineffectiveness	**-7,150**	**1,847**
Micro-hedge accounting ineffectiveness	2,659	916
Total hedge accounting ineffectiveness	**-4,491**	**2,763**
Other changes in the fair value of restructured derivatives included in hedge accounting	-48,407	-46,780
Changes in the fair value of derivatives not included in hedge accounting	557	3,347
Change in counterparty credit risk (CVA/DVA)	6,510	-4,101
Results from maturity extensions and early redemptions	7,251	-
Other fair value changes	-122	-3,533
Total	**-38,702**	**-48,304**

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 to manage 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 €24,897 million at 31 December 2019 (31 December 2018: €16,569 million) on the assets side of the balance sheet and €16,648 million at 31 December 2019 (31 December 2018: €9,007 million) on the liabilities side.

NWB Bank borrows significant amounts in foreign currency. The associated risks are immediately and fully hedged using currency swaps. The currency risks run by NWB Bank are therefore nil.

3 EMPLOYEE BENEFIT EXPENSES

The number of employees expressed in FTEs (including the Executive Committee) totalled 62.8 at the end of the financial year (2018: 65.2). Three FTEs are statutory members of the Executive Committee (together: the Managing Board), one is a non-statutory member of the Executive Committee, seven are department heads and 51.8 are staff members (2018: three members of the Managing Board, one non-statutory member of the Executive Committee, eight department heads and 53.2 staff members). The average number of FTEs (including the Executive Committee) amounted to 64.2 (2018: 61.2).

	2019	2018
Wages and salaries	6,275	5,555
Pension costs	2,298	2,272
Other social security costs	708	695
Other staff costs	2,136	1,143
Total	**11,417**	**9,665**

Salary costs rose as a result of an increase in headcount during the year and index-linked negotiated wages plus annual increments. Other staff costs increased due to the higher cost of temporary staff.

The remuneration of the Managing Board, including regular pension costs and other specific components as shown in the table below, amounted to €950,000 in 2019 (2018: €683,000).

	Fixed remuneration	Pension contribution	Other	**Total**
2019				
Lidwin van Velden	276	37	39	352
Melchior de Bruijne	235	28	20	283
Frenk van der Vliet	247	35	33	315
Total	**758**	**100**	**92**	**950**

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

1) This is the deferred component of the variable remuneration for 2018, to be assessed in 2022.
2) The 2018 variable remuneration does not apply to Melchior de Bruijne given that he joined the Bank on 1 December 2018.

The variable remuneration no longer applies from 2019 onwards and has been replaced by a fixed remuneration. The fixed remuneration comprises the fixed salary for 13 months as well as an 8% holiday allowance and an extra allowance of 11.1% (2018: nil).

Until 2019, the variable remuneration had a deferred component that was paid out after four years and after the long-term goals were (partially) achieved.

The Supervisory Board has decided to definitively grant the deferred component of the variable remuneration for 2016. The deferred component for 2016 definitively granted to Lidwin van Velden amounts to €11,000 (2015: €9,000), for Frenk van der Vliet €11,000 (2016: €9,000) and former chair of the Managing Board Menno Snel €4,000. Former chair of the Managing Board Ron Walkier has waived the deferred component of the variable remuneration for 2016 in light of the suspension of dividend distributions in 2016.

The remaining benefits recorded under 'other' are specified as follows:

An expense allowance: the members of the Managing Board received a taxed expense allowance of €3,000 in 2019 (2018: Lidwin van Velden and Frenk van der Vliet: €3,000).

A staff mortgage loan discount plan: in 2019, this taxed allowance amounted to €3,000 for Lidwin van Velden (2018: €3,000), €7,000 for Melchior de Bruijne (2018: nil) and nil for Frenk van der Vliet (2018: €1,000).

A contribution for the net pension scheme: in 2019, this taxed allowance amounted to €24,000 for Lidwin van Velden (2018: €24,000), €11,000 for Melchior de Bruijne (2018: €1,000) and €20,000 for Frenk van der Vliet (2018: €20,000).

Compensation for the harmonisation of the net pensions scheme as of 2015: in 2019, this taxed allowance amounted to €9,000 for Lidwin van Velden (2018: €8,000) and €10,000 for Frenk van der Vliet (2018: €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:

	2019	2018
Consultancy and regulatory fees	5,721	4,276
Information and communication	4,069	2,856
Other costs	3,572	3,325
Total	**13,362**	**10,457**

The consultancy and regulatory fees increased mainly as a result of projects related to accounting, risk management and regulatory reporting. The information and communication costs were higher as a result of project and change management costs.

The remuneration of the seven (2018: seven) Supervisory Board members, which is also included in the other costs, amounted to €221,000 (2018: €229,000).

Remuneration of the Supervisory Board members

	2019	2018
Age Bakker	47	60[1)]
Peter Glas	9	29
Petra van Hoeken	29	28
Frida van den Maagdenberg	29	28
Toon van der Klugt	29	28
Maurice Oostendorp	29	28
Annette Ottolini	20	-
Manfred Schepers	29	28
Total	**221**	**229**

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.

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.

	2019	2018
Consultancy and regulatory fees	321	278
Other costs	351	162
Total	**672**	**440**

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. In the other 2019 audit engagements, an amount of €54,000 was recognised for an engagement that was carried out and accounted for in 2019 but which related to the financial year 2018. Moreover, additional activities were included in the other audit engagements for the audit of specific projects.

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 2019 and 2018 are based on the balance sheet at year-end 2018 and 2017, respectively, and are charged to the profit for 2019 and 2018, respectively.

Bank tax is based on the ratio of current liabilities at the end of the previous financial year amounting to €22,951 million (2018: €21,403 million) and long-term liabilities for the previous financial year amounting to €59,038 million (2018: €64,093 million). The total amount of bank tax paid in 2019 was €17.1 million (2018: €17.7 million).

Under the Bank Recovery and Resolution Directive (BRRD), the bank is required to pay a resolution levy. The levy for the year 2019 was paid to the Single Resolution Fund and amounted to €6.2 million (2018: €11.4 million). Of this amount, €0.9 million was paid in the form of Irrevocable Payment Commitments (2018: €1.7 million) and €5.3 million was charged to the profit for 2019 (2018: €9.7 million).

7 INCOME TAX EXPENSE

	2019	2018
Profit before income tax (incl. extraordinary income)	135,495	136,356
Income tax at 25.0%	33,874	34,089
Non-deductible expenses relating to bank tax	4,285	4,429
Non-deductible expenses relating to AT1 Capital	2,348	-
Change of future income tax rate	500	-1,846
Other non-deductible expenses and adjustments	-15	-13
Income tax expense	**40,992**	**36,659**
Effective tax burden (%)	30.3%	26.9%

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

	2019	2018
Current tax	**37,901**	**41,138**
Change in provision for pensions	2,696	-316
Results from 'basisrentelening' loans deferred for tax purposes	-786	-786
Results from maturity extensions deferred for tax purposes previous years	-1,349	-1,531
Results from maturity extensions deferred for tax purposes current year	2,030	-
Change of future income tax rate	500	-1,846
Deferred tax	**3,091**	**-4,479**
Income tax expense	**40,992**	**36,659**

The effective tax burden is higher than the current 25% tax rate, mainly because bank tax is non-deductible. Moreover, with effect from the 2019 financial year, the interest on raised AT1 capital is no longer deductible.

In 2019, the government decided to change the income tax rate over the next few years. The percentages are 25% for 2020 and 21.7% for the years following 2020. It concerns an increase in the percentages relative to the rate changes announced in late 2018. The increase will lead to higher deferred tax liabilities, the effect of which has been recognised in the preparation of the financial statements above under 'Change of future income tax rate'.

8 OTHER EXTRAORDINARY INCOME

In 2019, there was a gain due to a change to the pension plan. Active employees have switched from a defined benefit plan to a defined contribution plan. For details, please consult the explanation in **21** Provisions.

NOTES TO THE BALANCE SHEET

9 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.

10 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:

	2019	2018
Balances payable on demand	114	117
Receivables under collateral arrangements	7,945,964	4,490,937
Receivables guaranteed by the Dutch government	128,969	99,323
Total	**8,075,047**	**4,590,377**

11 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:

	2019	2018
As at 1 January	**61,405,014**	**60,972,929**
Newly granted long-term loans	8,496,771	6,949,214
Newly granted short-term loans	8,315,282	10,435,253
Redemptions	-14,435,722	-17,399,546
Value adjustment for fair value hedge accounting	6,165,552	474,331
Value adjustment for separated derivatives embedded in loans and receivables	15,867	-27,167
Total	**69,962,764**	**61,405,014**

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

	2019	2018
Receivables from or under guarantee by the Dutch government	50,361,369	49,302,707
Non-guaranteed receivables to the public sector and others	1,334,448	821,702
Receivables under collateral arrangements	967,061	162,138
Value adjustment for fair value hedge accounting	17,314,655	11,149,103
Fair value of separated derivatives embedded in loans and receivables	-14,769	-30,636
Total	**69,962,764**	**61,405,014**

Non-guaranteed receivables to the public sector concern receivables from the water authorities, public-private partnerships and sustainable financing.

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

	2019	2018
Water authorities	7,216,434	7,074,337
Municipalities	6,092,654	6,384,388
Social housing	33,137,729	32,102,640
Other	3,914,552	3,741,342
Total	**50,361,369**	**49,302,707**

Given the risk profile of NWB Bank's counterparties, a provision for uncollectible receivables is not necessary at the balance sheet date (2018: nil). At the end of 2019, an exposure amounting to €9 million was classified as a performing forborne exposure (2018: €8 million).

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 €10.7 billion at the end of 2019 (€11.2 billion at the end of 2018).

Of the loans and receivables, a nominal €3.2 billion have a remaining term to maturity of less than 12 months (2018: €3.0 billion).

12 INTEREST-BEARING SECURITIES

This item can be broken down as follows:

	2019	2018
Interest-bearing securities held to maturity	1,929,421	1,400,189
Other listed interest-bearing securities	930,747	866,004
Other unlisted interest-bearing securities	1,850,905	1,024,321
Total	**4,711,073**	**3,290,514**

The movements in interest-bearing securities in 2019 and 2018 were as follows:

	Public sector bodies	Other	Total
As at 1 January 2019	**1,680,673**	**1,609,841**	**3,290,514**
Purchases	2,827,359	833,847	3,661,206
Sales and redemptions	-1,735,896	-579,312	-2,315,208
Value adjustments in Other interest-bearing securities	61,474	13,087	74,561
As at 31 December 2019	**2,833,610**	**1,877,463**	**4,711,073**
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 adjustments 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 €0.4 billion at the end of 2019 (€0.4 billion at the end of 2018). Of the interest-bearing securities, a nominal €2,045 million (2018: €704 million) have a remaining term to maturity of less than 12 months.

13 INTANGIBLE ASSETS

This item comprises capitalised expenses related to software. The breakdown of this item in 2019 and 2018 is as follows:

	2019	2018
Carrying amount as at 1 January	**3,159**	**2,353**
Additions	3,308	1,751
Amortisation	-1,360	-945
Carrying amount as at 31 December	**5,107**	**3,159**

The cumulative amounts as at 31 December were as follows:

	2019	2018
Additions	15,663	12,355
Amortisation	-10,556	-9,196
Carrying amount as at 31 December	**5,107**	**3,159**

14 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 2019 and 2018 is as follows:

	Property in use by the bank	Other equipment	**Total**
Carrying amount as at 31 December 2018	**3,957**	**1,323**	**5,280**
Additions 2019	68	530	598
Disposals 2019	-	-14	-14
Depreciation in 2019	-496	-446	-942
Carrying amount as at 31 December 2019	**3,529**	**1,393**	**4,922**
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 at the end of 2019 were as follows:

	Property in use by the bank	Other equipment	**Total**
Additions	9,929	9,376	19,305
Depreciation	-7,953	-7,983	-15,936
	1,976	**1,393**	**3,369**
Revaluations	1,553	-	1,553
Carrying amount as at 31 December 2019	**3,529**	**1,393**	**4,922**

The cumulative amounts at the end of 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**

15 OTHER ASSETS

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

16 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 2019 breakdown of derivatives below, derivatives totalling €112,729 (2018: €63,264) were not included in hedge accounting.

Breakdown by remaining term to maturity of fair values as at 31 December 2019 and 2018 respectively:

	<3 months	3-12 months	1-5 years	>5 years	**Total**
2019					
Interest rate swaps	4,844	22,783	359,450	1,983,132	2,370,209
Currency swaps	176,372	118,819	496,026	1,086,765	1,877,982
Caps, floors and swaptions	-	-	-	877,220	877,220
Total 2019	**181,216**	**141,602**	**855,476**	**3,947,117**	**5,125,411**
2018					
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 2018	**445,325**	**311,094**	**1,026,662**	**2,379,429**	**4,162,510**

17 PREPAYMENTS AND ACCRUED INCOME

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

18 BANKS

This item comprises 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 comprises the balance of the daily offset of the derivatives against the collateral received or paid with central counterparties.

This item can be broken down as follows:

	2019	2018
Balances payable on demand	181	-
Loans taken out at banks	742,468	772,696
Value adjustment for fair value hedge accounting	53,126	-2,045
Liabilities under collateral arrangements	833,389	745,979
Exposure Central Clearing	16,926	6,567
Total	**1,646,090**	**1,523,197**
Movement in long-term loans taken out at banks:		
As at 1 January	772,696	646,523
Loans taken out at banks	-	150,000
Redemptions	-30,228	-23,827
As at 31 December	**742,468**	**772,696**

19 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:

	2019	2018
Funds entrusted short term	106,100	322,000
Funds entrusted long term	5,437,123	5,417,443
Value adjustments for fair value hedge accounting	1,258,440	788,151
Total	**6,801,663**	**6,527,594**
Movement in long-term funds entrusted:		
As at 1 January	5,417,443	5,338,318
Funds entrusted long term	219,135	88,231
Redemptions	-199,455	-9,106
As at 31 December	**5,437,123**	**5,417,443**

20 DEBT SECURITIES

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

	2019	2018
Bond loans	54,249,594	56,812,454
Short-term debt securities	15,795,241	8,267,011
Value adjustment for fair value hedge accounting	3,236,799	1,270,580
Fair value of separated derivatives embedded in loans and receivables	7,273	-49,960
Carrying amount as at 31 December	**73,288,907**	**66,300,085**
Movement in bond loans:		
As at 1 January	56,812,454	55,860,727
Bond loans	9,702,338	10,190,013
Redemptions	-12,265,198	-9,238,286
As at 31 December	**54,249,594**	**56,812,454**

Of the total amount in long-term debt securities issued, a nominal €3.5 billion (2018: €5.5 billion) carries a variable interest rate. Of the long-term debt securities, a nominal €6.6 billion (2018: €12.5 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.

21 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:

	2019	2018
As at 1 January	**11,479**	**16,461**
Change in provision for pensions	1,105	-28
Change as a result of (unrealised) gains and losses of interest bearing securities at fair value through OCI	-47	-791
Results from 'basisrentelening' loans deferred for tax purposes	-786	-786
Results from maturity extensions deferred for tax purposes previous years	-1,349	-1,531
Results from maturity extensions deferred for tax purposes current year	2,030	-
Adjustment to income tax rate in coming years	500	-1,846
As at 31 December	**12,932**	**11,479**

Pension provision

The movements in the pension provision are as follows:

	2019	2018
Current service cost	2,046	1,839
Past service costs	-10,988	-
Interest cost	807	762
Expected return on plan assets	-523	-495
Administrative and other costs	32	32
Employee benefits expenses	**-8,626**	**2,138**

	2019	2018
Expected return on plan assets	45,714	42,911
Administrative and other costs	-34,738	-27,513
Employee benefits expenses	**10,976**	**15,398**

	2019	2018
Opening balance defined benefit obligation	**42,911**	**42,732**
Interest cost	807	762
Current service cost	2,046	1,839
Benefits paid	-850	-811
Past service costs	-10,988	-
Employee contributions	101	79
Gain (loss) caused by changes (in assumptions) in plan assets	11,687	-1,690
Closing balance defined benefit obligation	**45,714**	**42,911**

	2019	2018
Opening balance fair value of plan assets	**27,513**	**27,446**
Employer contributions	2,154	872
Employee contributions	101	79
Benefits paid	-850	-811
Interest income	523	495
Return excluding interest income	5,297	-568
Fair value of plan assets as at 31 December	**34,738**	**27,513**

In 2019, the benefit pension plan for employees (active) changed from a defined benefit plan to a defined contribution plan. As a result of this change, the pension provision has decreased. The remaining provision respects the accrued entitlements of all participants until and including 2019 and the indexation of pension benefits for non-active employees.

The pensionable salary has been maximised for tax purposes at €108,000.

The projected employer contributions for 2020 to the defined benefit plans at the end of 2019 amount to €0.1 million for non-active employees (2018: €2.4 million for active and non-active employees).

The key assumptions used in determining the provision for pension plan obligations are as follows:

	2019	2018
Discount rate	0.90%	1.90%
Expected rate of return on assets	0.90%	1.90%
Future salary/pay increases	-	1.90%
Future indexation inactives	1.90%	1.90%
Future pension increases actives	-	1.90%

22 INCOME TAX

Income tax payable in 2019 and 2018 can be broken down as follows:

	2019	2018
Current tax expense 2019 resp. 2018	37,901	41,138
Advances paid 2019 resp. 2018	-49,525	-49,240
Total income tax payable	**-11,624**	**-8,102**

23 OTHER LIABILITIES

This item can be broken down as follows:

	2019	2018
Prepaid interest and redemptions	11,454	27,595
Other liabilities	12,161	2,092
Total	**23,615**	**29,687**

24 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 2019 breakdown of derivatives below, derivatives totalling €84,906 (2018: €61,977) were not included in hedge accounting.

Breakdown by remaining term to maturity of negative fair values as at 31 December 2019 and 2018 respectively:

	<3 months	3-12 months	1-5 years	>5 years	Total
2019					
Interest rate swaps	19,341	26,453	234,873	10,573,854	10,854,521
Currency swaps	125,279	9,702	236,435	200,044	571,460
Caps, floors and swaptions	32	-	344	871,922	872,298
Total 2019	**144,652**	**36,155**	**471,652**	**11,645,820**	**12,298,279**
2018					
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 2018	**116,361**	**118,490**	**729,060**	**6,288,369**	**7,252,280**

25 ACCRUALS AND DEFERRED INCOME

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

26 SUBORDINATED DEBT

Given the leverage ratio requirements implemented by the regulatory authority at the time, 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. The second tranche of €120.5 million was issued in 2016. No new hybrid capital was raised in 2017, 2018 or 2019.

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 falls 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 again.

The movements in subordinated debt are set out below:

	2019	2018
As at 1 January	**326,376**	**326,509**
Subordinate debt issued	-	-
Change in accrued interest and premium	-141	-133
As at 31 December	**326,235**	**326,376**

27 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 2019:

	Issued	Paid up
A shares		
As at 31 December 2019 (50,478 shares)	5,805	5,805
B shares		
As at 31 December 2019 (8,511 shares)	3,915	1,019
Of which unpaid (74% of 8,510 shares)	-2,896	
Total paid up as at 31 December 2019		**6,824**
Total paid up as at 31 December 2018		6,824

28 REVALUATION RESERVES

The movements in interest-bearing securities in 2019 and 2018 were as follows:

	Revaluation reserve interest-bearing securities	Other revaluation reserves	**Total**
As at 1 January 2018	**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**
Changes in the (unrealised) value of interest-bearing securities	-142	-	-142
As at 31 December 2019	**4**	**1,231**	**1,235**

29 OTHER RESERVES

The movements in other reserves were as follows:

	Total
As at 1 January 2018	**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**
Appropriation of 2018 profit	99,697
Distribution for 2018	-20,000
Changes in value as part of the pension provision	-4,769
As at 31 December 2019	**1,692,888**

30 UNAPPROPRIATED PROFIT FOR THE YEAR

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

		2019		2018
Profit for the year		**94,502**		**99,697**
The proposed profit appropriation is as follows:				
Cash dividends on A shares	806%	46,788	293%	17,014
Cash dividends on B shares	806%	8,212	293%	2,986
		55,000		**20,000**
Added to the reserves on the approval of the Supervisory Board		39,502		79,697
		94,502		**99,697**

31 IRREVOCABLE COMMITMENTS

These commitments relate to:

	2019	2018
Loans granted but not yet paid	1,266,248	1,053,737
Committed purchase of interest-bearing securities	-	35,000
Unused current account overdraft facilities	698,610	886,463
Unused financing facilities	1,791,764	1,781,603
Guarantees issued	4,397	2,349
	3,761,019	**3,759,152**

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

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 regularly establishes 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 regularly adjust the measurement parameters that serve as inputs for the measurement models.

Cash, cash equivalents and deposits at the Central Bank, banks, loans and receivables, funds entrusted and debt securities

A measurement model is used to determine the fair value of cash, cash equivalents and deposits at the Central Bank, banks, loans and receivables, funds entrusted 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 under 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. This spread is effectively a measure of the additional funding charges the bank pays on account of liquidity and credit risks. These 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 held to maturity and other unlisted interest-bearing securities are determined by means of the same model 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. 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.

(in millions of euros)	**Carrying amount 31-12-2019**	**Fair value 31-12-2019**	Carrying amount 31-12-2018	Fair value 31-12-2018
Assets				
Cash, cash equivalents and deposits at the Central Bank	8,290	8,290	10,237	10,237
Banks	8,075	8,075	4,590	4,590
Loans and receivables	69,963	73,743	61,405	64,388
Interest-bearing securities	4,711	4,754	3,291	3,294
Derivative assets	5,125	5,125	4,163	4,163
Liabilities				
Banks	1,646	1,645	1,523	1,515
Funds entrusted	6,802	6,870	6,528	6,525
Debt securities	73,289	73,409	66,300	66,986
Subordinated debt	326	385	326	381
Derivative liabilities	12,298	12,298	7,252	7,252

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:

(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
31 December 2019			
Assets			
Interest-bearing securities	931		
Derivative assets		5,125	
Separated derivatives		-15	
Liabilities			
Derivative liabilities		12,298	
Separated derivatives		7	
31 December 2018			
Assets			
Interest-bearing securities	866		
Derivative assets		4,163	
Separated derivatives		-31	
Liabilities			
Derivative liabilities		7,252	
Separated derivatives		-50	

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

Financial derivatives

(in millions of euros)	≤1 year	1-5 years	>5 years	**Total**
2019				
Notional amounts of interest rate derivatives	14,203	19,308	75,825	**109,336**
Notional amounts of currency derivatives	19,804	8,690	6,786	**35,280**
2018				
Notional amounts of interest rate derivatives	5,494	19,557	65,266	**90,317**
Notional amounts of currency derivatives	16,094	9,289	6,964	**32,347**

The notional amounts of the caps and floors total €60 million (2018: €46 million) and those of the swaptions €2,506 million (2018: €1,491 million). These derivatives are included under the interest rate derivatives in the above table.

33 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**.

At year-end 2019, an amount of €6,556 million in loans had been granted to shareholders on market terms (2018: €6,426 million).

34 RISK MANAGEMENT

The bank's strategy places strict requirements on risk management and the organisation and enforcement of adequate internal controls. NWB Bank has adopted an organisation-wide approach to risk management and its control.

Risk taxonomy

The basis for NWB Bank's risk management is a classification of all relevant risks into specific categories. This risk taxonomy, as it is called, is determined every year and does not take into account any mitigating measures in its assessment of the relevance of the risks. The taxonomy distinguishes between financial and non-financial risks, and both categories are further broken down into other subtypes.

Financial risks

Financial risks are risks related to financing, which NWB Bank manages at the individual and/or portfolio level. The bank continuously attempts to improve its understanding of exposures to these risks and how to manage them. Financial risks are subdivided into credit risk, interest rate risk, market risk and liquidity risk.

Credit risk

NWB Bank defines credit risk as the potential impact on profit/capital as a result of the deterioration of the creditworthiness of creditors/counterparties. Credit risk is divided into the following subtypes:

Subtype	Definition
Credit default risk	Potential impact on profit/capital because debtors are not meeting their obligations.
Credit migration risk	Potential impact on profit/capital as a result of the deterioration of the creditworthiness based on internal/external ratings.
Counterparty credit risk	Potential impact on profit/capital because counterparties are not meeting their obligations in derivatives transactions.
CVA risk	The risk of mark-to-market losses in Credit Valuation Adjustments (CVA) in bilateral derivatives transactions.
Settlement risk	The risk that the counterparty fails to meet its obligations during the settlement of a transaction, even though NWB Bank does meet its obligations.
Credit concentration risk	The risk of significant credit losses emanating from a concentration of exposures to a small group of clients, a group of clients with the same default characteristics or financial assets that are strongly correlated.
Country risk	The risk that a counterparty is unable to meet its obligations as a result of political, social, economic or other events in the country in which it is based.

The bank's policy is geared towards an extremely high creditworthiness of the loan portfolio. NWB Bank principally lends to governments and government-backed institutions, which are guaranteed by (local) authorities. It also provides loans to drinking water companies and sustainability projects and finances PPP projects with the government as the contracting authority. In addition, the bank provides loans to other client groups in the public sector, including university medical centres and regional network operators.

For the benefit of the liquidity portfolio, the bank purchases a limited number of 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). The bank applies the same quality standards in such cases as for lending to the Dutch public sector.

Lastly, the bank enters into agreements with banks and pension funds for money market transactions and currency, and all of NWB Bank's loans are included in the bank's credit assessment system according to its credit risk management policy. In 2019, this policy was further elaborated, as a result of which all loans are individually assessed. 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.

In 2019, as in previous years, the bank did not suffer a loan loss. Owing to the bank's specific business model, there is a concentration risk related to the Dutch public sector.

Given the public-sector nature of the majority of the bank's clients who, moreover, are exempt from solvency requirements, the credit risk of the loan portfolio is limited. This 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 €100 billion at the end of 2019 (2018: €87.5 billion).

NWB Bank uses derivatives to manage interest rate and currency risks. To limit the counterparty credit risks associated with these derivatives as far as possible, in principle, NWB Bank only enters into transactions with counterparties with a single-A rating at a minimum. This applies when these derivatives have not been cleared centrally. Furthermore, limits are set to minimise the total exposure from derivatives.

The fair values of these derivatives are hedged by collateral agreements (Credit Support Annexes, or 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 International Swaps and Derivatives (ISDA) framework. As a minimum, these agreements are related to 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). Since 2016, the bank's interest rate derivatives have been cleared by a central counterparty, which has further reduced counterparty risk.

The total fair value exposure from derivatives to financial counterparties at year-end 2019 was €817 million, of which €689 million was covered by collateral received by the bank (2018: €908 million and €740 million, respectively). The total fair value exposure from derivatives from financial counterparties at year-end 2019 was €7,871 million, of which €7,769 million was covered by collateral provided by the bank (2018: €4,181 million and €4,169 million, respectively). The tables below show the net fair values of the derivatives, i.e. including collateral received and provided:

(in millions of euros)	Positive resp. negative fair value derivatives	Netting negative resp. positive fair value derivatives	Cash collateral received resp. payed	**Net position**
31 December 2019				
Assets				
Cash, cash equivalents and deposits at the Central Bank	4,248	-3,431	-689	128
Prepayments and accrued income	877	-	-	877
Total 2019	**5,125**	**-3,431**	**-689**	**1,005**
Liabilities				
Banks	-11,308	3,431	7,769	-108
Equity	-990	-	967	-23
Total 2019	**-12,298**	**3,431**	**8,736**	**-131**

(in millions of euros)	Positive resp. negative fair value derivatives	Netting negative resp. positive fair value derivatives	Cash collateral received resp. payed	**Net position**
31 December 2018				
Assets				
Cash, cash equivalents and deposits at the Central Bank	3,818	-2,909	-740	169
Prepayments and accrued income	345	-	-	345
Total 2018	**4,163**	**-2,909**	**-740**	**514**
Liabilities				
Banks	-7,090	2,909	4,169	-12
Equity	-162	-	162	-
Total 2018	**-7,252**	**2,909**	**4,331**	**-12**

The derivatives entered into with non-financial counterparties are not separate derivatives but derivatives in the form of agreements included in the loan contracts. No ISDA or CSA agreements have been made, which means 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.

Loan portfolio
At the reporting date, the total credit risk (including irrevocable commitments) expressed in risk-weighted assets based on the standard approach as set out in the Capital Requirements Regulation (CRR) is as follows:

	Risk weight	Europe			North America	Rest of the World	Total	RWA
		NL	EU	Non-EU				
2019								
Central governments	0%	8,350	-	-	-	-	8,350	-
Regional governments	0%	19,513	-	-	-	-	19,513	-
Institutions with delegated government duties	0% -100%	55,532	516	-	-	-	56,048	1,677
International organisations	0%	-	234	-	-	-	234	-
		-	799	-	-	-	799	-
Banking counterparties[1]	0% -50%	6,947	3,606	125	1,365	16	12,059	385
RMBS (NHG) notes[1]	20%	424	-	-	-	-	424	85
Covered bonds	10%	745	-	-	-	-	745	75
Other	100%	1,011	-	-	-	-	1,011	43
Total 2019		**92,522**	**5,155**	**125**	**1,365**	**16**	**99,183**	**2,265**
2018								
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	-	-	-	48,086	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 2018		**81,739**	**2,990**	**341**	**1,130**	**-**	**86,200**	**1,550**

1) Based on external rating (External Credit Assessment Institution)

The total risk-weighted assets of €99,183 (2018: €86,200) include the balance sheet value of €96,205 (2018: €83,715) and the irrevocable commitments of €3,761 (2018: €3,759). Moreover, in applying the CRR rules, adjustments are made including the treatment of position regarding banking counterparties totalling -€783 (2018: -€1,274).

Most of NWB Bank's lending comes under the category of a 0% weighting, which means that the credit risk is considered very limited. The counterparty risks and potential money market lending by banking counterparties come under the 20%, 50% and 100% weighting categories. The RMBS portfolio with NHG notes comprise senior A notes under the 20% weighting category.A 20% weighting category applies on loans to UMCs. Lastly, loans provided to Dutch drinking water companies, regional network companies, renewable energy projects and PPP projects are included in the 100% weighting category.

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

	2019		2018	
(in millions of euros)	Nominal value	Balance sheet value	Nominal value	Balance sheet value
Water authorities	6,501	7,960	6,327	7,267
Municipalities	5,346	6,417	5,629	6,429
Other public institutions	225	301	247	319
Social housing	30,813	47,699	30,265	41,570
Healthcare institutions	2,053	2,426	2,119	2,418
Other borrowers under government guarantee	723	800	541	589
Joint schemes	722	801	706	736
Government-controlled public limited liability companies	753	932	489	534
Public-Private Partnerships	399	475	250	258
Credit institutions	129	129	99	99
Other	47	47	18	17
Total	**47,711**	**67,987**	**46,690**	**60,236**

The balance sheet value of the loans and receivables amounting to €69,963 (2018: €61,405) includes, in addition to long-term loans, short-term loans, current account balance receivables and collateral provided to non-financial counterparties amounting to €1,976 (2018: €1,169).

NWB Bank's borrowers as listed above are mainly public authorities and entities in the social housing and healthcare sectors to which funds loaned are guaranteed by the public authorities. The non-guaranteed financing is included under public-private partnerships and government-controlled public limited liability companies (water supply companies and renewable energy projects). 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 2019, NWB Bank held notes of RMBS programmes from two Dutch originators in its portfolio (2018: two), 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, when it monitors the 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 2019.

Rating	Nominal amount (€ million)	Expected expiry date	Class
AAA	424,039	2,021	A

Interest rate risk

NWB Bank defines interest rate risk as the current or future risk to the profit and economic value of an institution as a result of unfavourable interest rate fluctuations that have an impact on interest rate-sensitive instruments, including gap risk, basis risk and option risk. Interest rate risk is divided into the following subtypes:

Subtype	Definition
Gap risk	Risk resulting from the term structure of interest rate-sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
Basis risk	Risk arising from the impact of relative changes in interest rates on interest rate-sensitive instruments that have similar tenors but are priced using different interest rate indices. Basis risk arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate-sensitive instruments with otherwise similar rate change characteristics.
Option risk	Risk arising from options (embedded and explicit), where the institution or its customer can alter the level and timing of their cash flows, namely the risk arising from interest rate-sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so (embedded or explicit automatic options) and the risk arising from flexibility embedded implicitly or within the terms of interest rate-sensitive instruments, such that changes in interest rates may affect a change in the behaviour of the client (embedded behavioural option risk).
Credit spread risk from non-trading book activities (CSRBB)	The risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments inducing fluctuations in the price of credit risk, liquidity premium and other potential components, which is not explained by IRRBB or by expected credit/(jump-to-)default risk
Refinancing risk	The risk that an increase in the cost of refinancing liabilities as they mature will not be offset by corresponding asset returns.

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 by taking out interest rate derivatives for both the asset and the liability side of the balance sheet. In doing so, 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. This benchmark was used as input for 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, and taking into account the effective interest rates of the financial instruments, 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.

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

(in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
31 December 2019					
Assets					
Loans and receivables	96,668	29,806	4,786	12,349	49,727
Interest-bearing securities	4,741	934	1,529	1,122	1,156
Fixed-interest derivative assets	59,582	5,512	-986	20,407	34,649
Variable-interest derivative assets	-51,847	-41,904	-10,164	191	30
Total assets	**109,144**	**-5,652**	**-4,835**	**34,069**	**85,562**
Liabilities					
Banks, funds entrusted and debt securities	82,486	20,196	4,354	25,464	32,472
Subordinated debt	384	1	8	88	287
Fixed-interest derivative assets	48,069	-8,455	-413	7,015	49,922
Variable-interest derivative assets	-25,758	-11,673	-14,059	-49	23
Total liabilities	**105,181**	**69**	**-10,110**	**32,518**	**82,704**
Total assets less liabilities 2019	**3,963**	**-5,721**	**5,275**	**1,551**	**2,858**

(in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
31 December 2018					
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
Variable-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 assets	40,772	-859	861	7,809	32,961
Variable-interest derivative assets	-26,067	-13,349	-12,733	-9	24
Total liabilities	**90,298**	**2,078**	**-3,852**	**31,241**	**60,831**
Total assets less liabilities 2018	**3,362**	**-4,803**	**4,412**	**1,373**	**2,380**

With Brexit in mind, last year NWB Bank sought to join Eurex Clearing 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 in late December 2018, 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 through LCH. This 'third-party recognition' was continued in late December 2019 when Brexit was postponed. As for the UK swap counterparties, with which the bank is not concluding or has not concluded centrally cleared bilateral derivatives, the bank has switched 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. After the expected date of replacement of IBOR (31 December 2021), the remaining notional principal amount for the US Libor will be USD 40 million and for the GBP Libor a notional principal amount of GBP 365 million.

Refinancing 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 generally has to do with the long-term investments they make. Although the bank is also able to raise funding with a relatively long maturity, the impact of a potential increase in the funding spread on net interest income in case of a maturity mismatch between funding and lending is acknowledged.

To this end, NWB Bank applies a limit system.

DV01
NWB Bank uses DV01 (the dollar value of a basis point) as the key measure of interest rate risk. This key measure 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 2019, 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, intending to set 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 12 months under various interest rate scenarios with the outcome of a baseline scenario. At year-end 2019, the outcomes for those scenarios were within the limits set.

Scenario Analysis
NWB Bank performs scenario analyses to gain additional insight into the interest rate risk. A common scenario is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -100 basis points (bp) and +100 bp. The effect of this sudden change in the interest rate as at 31 December 2019 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 €76 million 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
2019:			
Interest rate shock of +100 bp	**-109**	-33	-76
Interest rate shock of -100 bp	**18**	2	16

(in millions of euros)	**Total fair value change**	Immediate effect on profit or loss	Long-term effect on future profit
2018:			
Interest rate shock of +100 bp	**-74**	23	-97
Interest rate shock of -100 bp	**14**	-7	21

Market risk

NWB Bank defines market risk as the risk of losses in on- or off-balance positions caused by negative changes in market rates. Within market risk, one subtype is recognised:

Sub type	Definition
FX risk	The potential impact on profit/capital caused by movements in the exchange rates

The bank's policy is to eliminate all currency risks on 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 foreign currencies.

	2019				2018			
Currency	Asset	Liability	Derivatives	**Total**	Asset	Liability	Derivatives	**Total**
AUD	-	-5,533	5,533	-	-	-4,919	4,919	-
CAD	-	-393	393	-	-	-393	393	-
CHF	-	-2,435	2,435	-	-	-2,735	2,735	-
GBP	-	-897	897	-	-	-1,790	1,790	-
HKD	-	-100	100	-	-	-100	100	-
JPY	-	-130,218	130,218	-	-	-140,009	140,009	-
NOK	-	-500	500	-	-	-500	500	-
NZD	-	-292	292	-	-	-152	152	-
SEK	-	-8,860	8,860	-	-	-7,550	7,550	-
USD	-	-29,228	29,228	-	-	-26,183	26,183	-

Liquidity risk

NWB Bank defines liquidity risk as the potential impact on profit/capital in case the bank is not able to meet repayment obligations. Liquidity risk is subdivided into the following subtypes:

Sub type	Definition
Funding liquidity risk	The risk that NWB Bank cannot meet its repayment obligations. This risk also explicitly covers concentration risks within liquidity (e.g. a concentration of liquidity sources).
Market liquidity risk	The risk that it is not possible to immediately trade on the market at a fair price.

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.

This requirement is essentially fully covered on the international money and capital markets and does not raise any deposits from clients. When raising funds, the bank expressly takes into account the diversification of geographical markets, investors, currencies and funding programmes and instruments. In the unexpected event of money and capital market stagnation, the bank has more than sufficient resources to meet maturing loan obligations and finance new loans. The bank has more than sufficient liquid assets and collateral at its disposal, and a large part of the bank's portfolio is accepted as collateral at the Dutch Central Bank (De Nederlandsche Bank – 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.

The collateral value of the portion of the portfolio contributed as collateral to DNB was €11.1 billion as at 31 December 2019 (€11.8 billion as at 31 December 2018). 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 $25 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 2019 totalled €15.9 billion (as at 31 December 2018: €8.3 billion). The liquidity position is monitored daily. The aim of liquidity management is to ensure 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 through a liquidity gap analysis, containing differences between the cash flows receivable and payable. The liquidity position is subject to a system of limits.

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.

(in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
31 December 2019					
Assets					
Cash, cash equivalents and deposits at the Central Bank	8,290	8,290	-	-	-
Banks	8,078	7	12	50	8,009
Loans and receivables	76,940	2,384	6,767	18,340	49,449
Interest-bearing securities	4,744	599	1,525	1,446	1,174
Intangible assets	5	-	-	5	-
Tangible assets	5	-	-	1	4
Income tax	10	10	-	-	-
Derivative assets	15,656	519	687	3,090	11,360
Other assets	19	12	2	-	5
Prepayments and accrued income	-	-	-	-	-
Total assets as at 31 December 2019	**113,747**	**11,821**	**8,993**	**22,932**	**70,001**
Liabilities					
Banks	4,916	-96	49	616	4,347
Funds entrusted	7,810	73	15	483	7,239
Debt securities	77,350	17,778	5,485	23,123	30,964
Subordinated debt	382	1	8	88	285
Derivative liabilities	27,668	394	905	4,484	21,885
Pension provision	11	-	-	-	11
Provision for deferred income tax	11	-	-	11	-
Income tax	-	-	-	-	-
Other liabilities	23	19	4	-	-
Accruals	1	1	-	-	-
Equity	1,796	-	-	-	1,796
Total liabilities as at 31 December 2019	**119,968**	**18,170**	**6,466**	**28,805**	**66,527**

(in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
31 December 2018					
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	-	5
Prepayments and accrued income	-	-	-	-	-
Total assets as at 31 December 2018	**108,219**	**13,002**	**7,820**	**25,365**	**62,032**
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	-	-
Accruals	3	3	-	-	-
Equity	1,726	-	-	-	1,726
Total liabilities as at 31 December 2018	**113,230**	**12,549**	**10,842**	**28,203**	**61,636**

Liquidity Coverage Ratio
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 of 100% applies. The LCR measures whether there are sufficient liquid assets to meet obligations in the short term. The internal LCR limit is higher than the minimum requirement. The LCR was 204% at the balance sheet date (2018: 222%).

Net Stable Funding Ratio
The NSFR shows the ratio between the available and required amount of stable funding, whereby a distinction is made between products with short- and long-term maturities and off-balance sheet items.

The NSFR encourages the use of long-term funding for long-term loans, or matched financing. For the NSFR, a minimum requirement of 100% will go into effect in mid-2021. At year-end 2019, NWB Bank met this requirement with a ratio at balance sheet date of 118% (2018: 129%).

Non-financial risks

Non-financial risks arise from business operations and are reduced to acceptable levels, giving due consideration to costs and benefits. The non-financial risks at NWB Bank are divided into three categories, i.e. strategic risk, operational risk and Environmental, Social and Governance (ESG) risks.

Operational risk

NWB Bank defines operational risk as the risk of loss due to inadequate or failing processes, people and systems or external events. The following subtypes fall under this category:

Subtype	Definition
People risk	The risk of hampering staff knowledge and experience, staff availability and performance arising from inadequate staff management and/or losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.
Fraud risk	The risk of losses due to a) acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy, which involves internal parties and/or third parties and/or b) exceeding authority when entering into, approving or not reporting a transaction, or intentional mismarking of positions and/or c) intentional damage to systems (hardware and/or software) by internal staff due to actions carried out or not carried out, theft of data.
Physical security & safety risk	The risk of loss of or damage to physical assets and/or people due to acts of malice, spite, terrorism or the like, with no profit intention, or from natural disaster or other events, such as accidents.
Business continuity risk	The risk of hampering the availability/resilience of buildings, people, processes, systems, products, services due to natural disasters, power outages, terrorism or other events and/or failures of IT planned availability and/or continuity solutions and/or disaster recovery (e.g. fallback recovery data centre) when activated in response to an incident.
Transaction processing risk	The risk of losses from inaccurate, incomplete or untimely processing of transactions, resulting in a failure to effectively deliver payment processes and/or customer servicing processes.
Technology risk	The risk of losses arising from a) disruption of business or system failures (hardware failures, software failures and bugs, disruptive and destructive cyberattacks) and/or b) inadequate capacity management: resulting in an in ability to scale the service to meet business needs, system interruptions, degradation of service and/or operational mistakes and/or c) technological process failures in the domains operations, architecture, development, implementation.
Conduct risk	The risk of losses due to events related to an unintentional or negligent failure to meet professional obligations to specific clients, and/or to the nature or design of a product and/or collusion and conflict of interest and/or improper business or market practices and/or to inappropriate governance structures and/or to inappropriate, unethical or unlawful behaviour of management or employees.
Legal risk	Legal risk is the risk of loss resulting from exposure to a) non-compliance with regulatory and/or statutory responsibilities and/or b) adverse interpretation of and/or unenforceability of contractual provisions.
Financial crime risk	The risk of losses due to offences such as money laundering, financing of terrorism and circumvention of sanctions, bribery and corruption, market abuse and insider trading.

Regulatory compliance risk	The risk of losses due to intentional or negligent failure to meet regulations, laws and other rules applicable to NWB's services / activities.
Third-party risk	The risk of loss relating to suppliers, vendors and outsourcing parties. This risk stems, among other things, from a) inadequate outsourcing governance and/or b) inadequate resilience of third party services and/or c) inadequate security of third party.
Cyber & Information security risk	The risk of loss due to hampered information privacy, confidentiality, integrity, availability resulting from inadequate internal (IT) security and/or cyberattacks.
Financial, regulatory reporting & tax risk	The risk of misstatements in reported (financial, regulatory) information and the risk that (to be) reported earnings of the bank change without a change in the (economic) value of NWB and the failure to comply with tax law in a timely, transparent and effective manner, resulting in fines (penalties), interest and legal costs imposed by tax authorities on taxes arising from the bank's operations.
Data management risk	The risk of loss or inadequate decisions resulting from the failure to effectively and efficiently govern data or manage data quality or data knowledge along the entire data lifecycle, including when data is acquired or created, processed, used, shared, accessed, retained and disposed.
Model risk	Potential loss NWB Bank may incur as a consequence of decisions that could be principally based on the output of (internal) models, due to errors in the development, implementation or use of such models.

To fulfil 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.

The bank's operational risk management (ORM) is based on the 'three lines of defence principle' in which 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 Non-Financial Risk Committee (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 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.

Product Approval Process

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. Every PARP is submitted to the Supervisory Board for review. If there is a potential material impact on the bank's risk profile or results, then it is submitted for approval. 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 Supervisory Board. The PARP policy was updated in 2019.

Information services

To prevent disruptions to the information systems, NWB Bank makes ongoing investments to improve its systems. Keywords 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.

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. 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.

The bank has outsourced its client funds transfers and the related ICT support operations. This means certain services are performed outside the company. Agreements have therefore been made with the service provider on control measures for funds transfers.

Compliance

NWB Bank attaches great value to its reputation as a solid and respectable bank. Therefore, compliance and integrity are key focus areas. 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.

On 1 October 2018, the compliance role was separated from the Legal & Corporate Affairs Department and made independent of the first line. 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. A new compliance framework has been developed that has further reinforced the role of compliance. Several processes, including customer due diligence and transaction monitoring, were put into effect in 2019, taking into account the bank's risk profile.

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 Managing Board and has an escalation path to the chair of the Supervisory Board. The strengthening of the compliance function confirms the value 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 Compliance Officer has a coordinating role within the Regulatory Team.

Legal
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 itself and its clients. If needed, external advisers are consulted on legal issues and to review documents relating to these transactions.

Strategic risk
NWB Bank defines strategic risk as the risk of not achieving its strategic objectives. It could result from pursuing inadequate objectives, making wrong decisions, implementing decisions poorly, inefficiently allocating resources or responding poorly to changing circumstances.

An important principle in managing strategic risk is the retention of the bank's high-quality risk profile as reflected in its credit ratings. To be able to optimally serve its clients, the bank's credit ratings must 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 appropriate, the Managing Board adjusts the bank's strategy in a timely manner.

As a promotional bank for and established by the Dutch public sector, we must ensure a proactive response to the changing needs of the public sector. Furthermore, 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. The bank's Managing Board is responsible for managing strategic risks.

Environmental, Social and Governance risks

NWB Bank defines Environment, Social, Governance (ESG) risks, which includes climate risks, as the risk of doing business with its clients and service providers without taking into account the ESG criteria as described in external and internal rules, regulations and/or standards. The latter could damage the bank's ESG profile as perceived by its stakeholders. The assessment of the loan portfolio also takes into account ESG risks. These risks include governance aspects in the case of housing associations and the Equator Principles in the case of project financing. The ESG aspects of the credit risk management policy are dealt with in the Report of the Managing Board under 'The sustainable water bank'.

In recent months, several discussion papers were published for regulatory purposes which detail and analyse these risks. In the coming period, the bank will examine how ESG risks can be further integrated into all aspects of its risk management.

Reputational risk

Reputational risk is the risk of damage to NWB Bank's reputation as a result of events. Reputational risk can be a consequence of any kind of event, which means that this type of risk must be managed in the context of all other risks.

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 reputational risk.

Supervision

The bank is under the direct prudential supervision of the European Central Bank (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 both the specific profile and business model, and the risk management system of the bank. Clear and efficient lines of communication to the supervisory authority are also important. In the first half of 2019, an on-site audit took place which examined the quality of data 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 2019, NWB Bank participated in what is known as the sensitivity analysis of liquidity risk (LiST) of the ECB, which was the annual supervisory stress test. The results of the stress test have been used as input in the regular SREP process.

NWB Bank updates the recovery plan every year, partly based on the annual SREP results and the ECB recommendations. In a recovery plan, a bank describes the measures 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. In 2019, the effectiveness of the recovery plan was tested by performing a so-called dry run.

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.

Capital requirements
Unlike the ICAAP, which covers all risk categories, the minimum capital requirements (as stipulated in the Banking Directive or the Capital Requirements Directive) relate to credit risk, market risk and operational risk. The bank uses different methods for these three types of risk.

Credit risk
NWB Bank uses the standardised method for general credit risk. In addition, there is the capital for counterparty risk for which the mark-to-market method is used. The capital requirement according to the Credit Valuation Adjustment (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 term of derivatives positions entered into with counterparties, among other things.

Market risk
Market risk concerns the bank's currency risks. Due to its stringent policy on currency risk, on balance, there are no outstanding currency positions. Therefore, the capital that is to be reserved to cover market risk is nil.

Operational risk
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.

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

	2019	2018
Equity excluding profit for the current financial year	1,701	1,626
Intangible assets	-5	-3
Prudential filters	-5	-5
CET 1 capital	**1,691**	**1,618**
Additional Tier 1 capital	320	320
Tier 1 capital (A)	**2,011**	**1,938**
Weighted credit risk (SA)[1]	2,265	1,550
Capital requirement pursuant to CVA (SA)[1]	639	713
Weighted operational risk (SA)[1]	373	364
Risk-weighted assets (B)	**3,277**	**2,627**
Tier 1 ratio (A/B)	**61%**	**74%**

1) Standardised Approach

At the end of 2019, visible equity totalled €1,701 million (excluding profit for the current financial year) towards €1,626 million at year-end 2018 (excluding profit for the current financial year). CET 1 capital including Additional Tier 1 capital amounted to €2,011 million at year-end 2019 (excluding profit for the current financial year) against €1,938 million at year-end 2018 (excluding profit for the current financial year). The bank's total risk-weighted assets rose from €2,627 million at the end of 2018 to €3,277 million at the end of 2019. This rise is primarily the result of an increase in risk-weighted lending. It mainly concerns the financing of renewable energy projects, drinking water companies, academic hospitals and PPP projects.

As part of the annual SREP, the ECB reviewed the capital requirement for NWB Bank again last year. The bank-specific Pillar 2 Requirement remained unchanged at 2.25%. This requirement went into effect on 1 January 2020. The total SREP capital requirement for NWB Bank now amounts to 10.25%. This is the sum of the total Pillar 1 capital requirement of 8% and the Pillar 2 capital requirement of 2.25%. Together with the required capital conservation buffer of 2.5%, the total capital requirement for the bank amounts to 12.75%.

Leverage ratio

The implementation of CRR II has introduced a leverage ratio requirement of 3%. CRR II provides certain adjustments to the exposures that need to be included in the calculation of the ratio. Public development credit institutions, such as NWB Bank, can exclude exposures related to the financing of public sector investments. As a result, the leverage ratio at the balance sheet date was 15.1% (excluding profit current financial year).

Additional information about NWB Bank's risk management can be found in the Pillar 3 reports at www.nwbbank.com. These reports were not part of the audit.

35 MANAGING BOARD AND SUPERVISORY BOARD

Managing Board

Lidwin van Velden

Melchior de Bruijne

Frenk van der Vliet

Supervisory Board

Age Bakker

Maurice Oostendorp

Petra van Hoeken

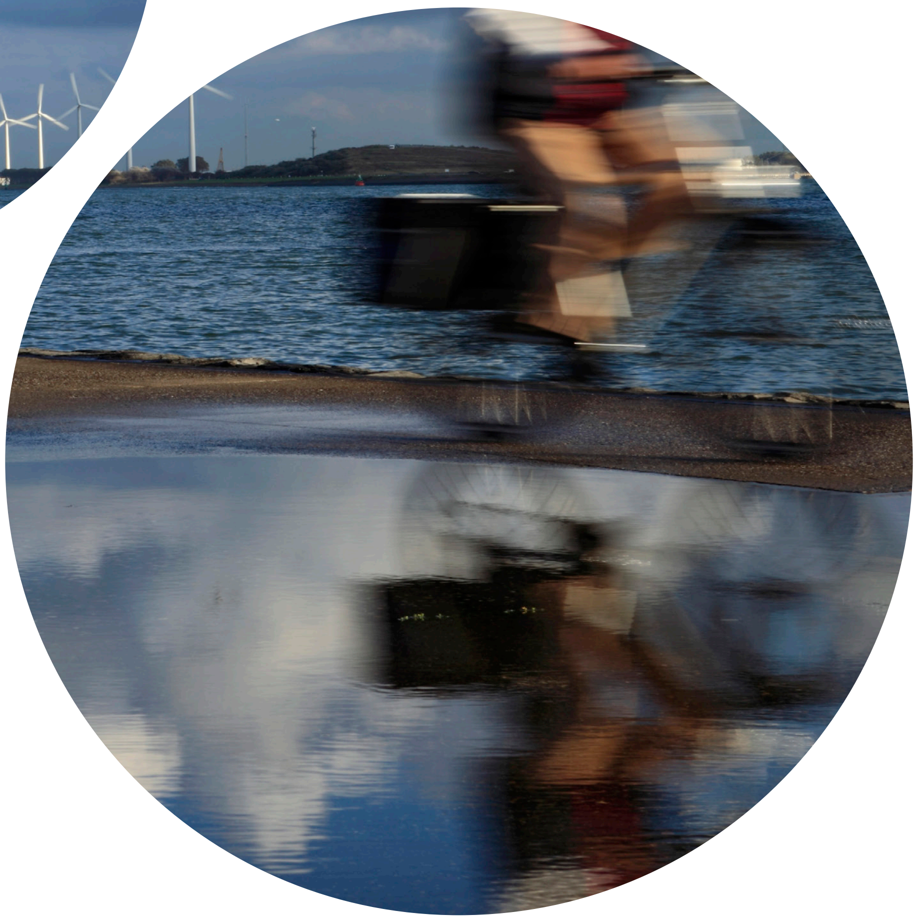
Toon van der Klugt

Frida van den Maagdenberg

Annette Ottolini

Manfred Schepers

The Hague, 11 March 2020



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OTHER INFORMATION

8. 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 2019 included in the annual report

Our opinion

We have audited the financial statements for the year ended 31 December 2019 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 2019, and of its result for 2019 in accordance with Part 9, Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The balance sheet as at 31 December 2019;
- The statement of income for 2019; and
- 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.

Our audit approach

We begin by determining the materiality and identifying and assessing the risks of material misstatement of the financial statements as a result of fraud, non-compliance with laws and regulations or error, and we design audit procedures in response to those risks to obtain 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. Fraud may involve collusion, forgery, intentionally omitting transactions, misrepresentations, or breaching internal control measures.

Materiality

Materiality	€17 million (2018: €16 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 is one of the key indicators 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 €850,000, 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 focus on fraud and non-compliance

Our responsibility

Although we are not responsible for the prevention of fraud or failure to comply with laws and regulations, and while we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements as a whole are free from material misstatement as a result of error or fraud.

Failure to comply with laws and regulations may result in fines, legal proceedings or other consequences for the company that could have a material effect on the financial statements.

Our audit procedure regarding fraud risk

To identify and assess the risks of material misstatement resulting from fraud, we acquire an understanding of the business and its environment, including the internal control that is relevant to the audit, with a view to select audit procedures that are appropriate in the circumstances. As in all our audits, we take into account the risk that management may breach internal control measures. We do not review internal controls to express an opinion on the effectiveness of the company's internal controls.

We have taken note of the available information and requested information from members of the Executive Board, management (including the internal audit department, Legal Affairs, Compliance Department and Risk Management) and the Supervisory Board. As part of our fraud risk identification process, we have considered fraud risk factors relating to fraudulent financial reporting, anomalies resulting from the misappropriation of assets, and bribery and corruption.

We have evaluated the design and implementation and, to the extent we consider necessary, tested the operation of internal control measures aimed at mitigating fraud risks. We have also assessed estimates of trends and uncertainties, particularly in key areas requiring judgment and significant estimation items, as disclosed in the accounting policies under 'significant estimates and estimation uncertainties'. We have also used data analysis to identify and test items involving increased risk .

Our audit has a built-in element of unpredictability. We have reviewed the outcome of other audit procedures and considered whether there are any findings that indicate fraud or non-compliance with laws and regulations. If so, we re-evaluated our assessment of the risk of fraud and its impact on our audit work.

Our audit approach regarding compliance risk

We have assessed the circumstances with regard to the risk of non-compliance with laws and regulations that can reasonably be expected to have a material impact on the financial statements, based on our experience in the sector, by coordinating with management, reading minutes, reviewing reports from the internal audit department and Compliance Department and performing data-oriented work focused on transaction flows, financial statement items and notes.

We have also taken note of correspondence with supervisors and lawyers and remained alert during the audit for indications of (possible) non-compliance during the audit. Finally, we received written confirmation that all known events of non-compliance with laws and regulations had been shared with us.

Going concern

To identify and assess the risks relating to going concern, and to be able to determine that the going concern assumption used by management is acceptable, we consider, on the basis of the audit evidence obtained, whether there are events and circumstances that could cast reasonable doubt on the ability of the company to continue as a going concern. If we conclude that there is a material uncertainty, we are required to focus our audit opinion on the relevant related disclosures in the financial statements. If the explanations are inadequate, we have to adjust our opinion.

Our conclusions are based on audit evidence up to the date of our audit report. However, future events or circumstances may cause a company to no longer be able to continue as a going concern.

Engagement team and using the work of specialists

We have ensured that the engagement team has the right knowledge and skills required to conduct an audit of a company in the banking sector. Our engagement team includes specialists in IT auditing, hedge accounting and tax. In addition, we have engaged our own experts to audit the valuation of derivatives and pension provisions.

General audit procedures

Our audit also included the following:

- Performing audit procedures in response to assessed risks and obtaining audit evidence that is sufficient and appropriate to provide a basis for our audit judgement
- Evaluating the appropriateness of the accounting policies and evaluating the reasonableness of accounting estimates made by management, as well as the related explanatory notes included in the financial statements
- Evaluating the presentation, structure and content of the financial statements and the disclosures contained therein
- Evaluating whether the financial statements give a true and fair view of the underlying transactions and events

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.

Compared with last year, we made no changes to the key matters in our audit.

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.

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 synchronisation 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 a 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, including any resulting ineffectiveness, are recorded in the statement of income under financial transactions. For the year ended 31 December 2019, NWB Bank recorded a hedge accounting ineffectiveness as disclosed in note 2 'result from financial transactions' of €4.5 million negative (2018: €2.8 million positive). 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 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, 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 to be 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 as 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. As explained in note 31 to the financial statements, 'fair value of financial instruments', at year-end, NWB Bank has financial assets and financial liabilities categorised as level 2 totalling €5.1 billion and €12.3 billion, respectively (2018: €4.1 billion and €7.3 billion, respectively). Due to the magnitude of financial instruments measured at fair value, 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 2019 and the related notes in the financial statements impacting our audit opinion.

Credit 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 2019, 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 other non-guaranteed receivables in the amount of €1.3 billion (2018: €0.8 billion) have 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 the WSW and WfZ guaranteed funds 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	We have not identified any material misstatements regarding the adequacy of the loan loss provision as at 31 December 2019 and the related notes in the financial statements impacting our audit opinion.

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; and
- Other information.

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

- is consistent with the financial statements and does not contain material misstatements; and
- 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, Book 2 of the Dutch Civil Code and other information pursuant to Part 9, Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

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 reporting year.

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, 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 scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Our audit approach' section above summarises our responsibilities and our activities, upon which our opinion is based.

Communication

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, 11 March 2020

Ernst & Young Accountants LLP

signed by W.J. Smit

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 sustainability information included in the 2019 annual report of Nederlandse Waterschapsbank N.V. in The Hague. An audit is aimed at obtaining a reasonable level of assurance.

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

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year 2019;

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

The sustainability information is included in the chapter 'Report of the Managing Board' (excluding the 'Risk management' section) and in the 'GRI index' and the 'Glossary' of this annual report.

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 sustainability information'.

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 sustainability information 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 sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) as well as the additionally used reporting criteria as disclosed in the sections 'Reporting standards' and 'Glossary' of this annual report.

The lack of established practices for assessing and measuring sustainability information allows the use of several acceptable measurement techniques. This may affect comparability between entities and over time.

Limitations to the scope of our audit

Results of the baseline measurement of Greenhouse Gas (GHG) emissions from financing by Nederlandse Waterschapsbank N.V. at year-end 2019, including related disclosures, are included in section 'Charting the climate impact of financing'. Neither the outcome nor the disclosures are part of this assurance report. We therefore do not provide any assurance on this information.

The sustainability information 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 sustainability information.

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

Responsibilities of the Managing Board and the Supervisory Board for the sustainability information

The Managing Board is responsible for the preparation of reliable and adequate sustainability information 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 sustainability information and the reporting policy are summarized in the 'Reporting standards' and 'Glossary' sections 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 sustainability information 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 sustainability information

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 scepticism throughout the audit performed by a multidisciplinary 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 sustainability information. 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 sustainability information, 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 sustainability information 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 sustainability information 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 sustainability 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 sustainability information;
  - Obtaining assurance information that the sustainability information 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 sustainability information; and
  - 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 sustainability information.
- Considering whether the sustainability information 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, 11 March 2020

Ernst & Young Accountants LLP

Signed by R.J. Bleijs

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 amounted to €94.5 million. The share of profit available for dividend has been set at €55.0 million by the Managing Board and Supervisory Board. This decision was made in accordance with Article 21 of the Articles of Association.

		2019		2018
Profit for the year		**94,502**		**99,697**
The proposed profit appropriation is as follows:				
Cash dividends on A shares	806%	46,788	293%	17,014
Cash dividends on B shares	806%	8,212	293%	2,986
		55,000		**20,000**
Added to the reserves on the approval of the Supervisory Board		39,502		79,697
		94,502		**99,697**

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SUPPLEMENTARY INFORMATION

9. SUPPLEMENTARY INFORMATION

LIST OF SHAREHOLDERS AS AT 1 JANUARY 2020

	Number of A shares at €115	Number of B shares at €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
Rijn en IJssel Water Authority	5,666	345
Rijnland Water Authority	4,858	289
Rivierenland Water Authority	3,968	437
Scheldestromen Water Authority	4,380	166
Schieland en de Krimpenerwaard Water Authority	610	430
Dutch State	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**

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

Subjects	Aspect	Added yes/no	Chapter/ Page reference
Business model	N/A	Yes	**Organisation (see page 12)**
Relevant social and employee-related matters (e.g. HR, safety etc.)	The policies pursued, including due diligence	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	The results of the policies pursued	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	The principle risks of the bank's own operations and within the value chain	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	The management of those risks	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	Non-financial performance indicators	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
Relevant environmental matters (e.g. impact of climate change)	The policies pursued, including due diligence	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	The results of the policies pursued	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	The principle risks of the bank's own operations and within the value chain	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	The management of those risks	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
	Non-financial performance indicators	Yes	**Sustainable, efficient and socially committed organisation (see page 66)**
Relevant subjects regarding respect for human rights (e.g. employee protection)	The policies pursued, including due diligence	Yes	**Reporting standards (see page 77)**
	The results of the policies pursued	Yes	**Reporting standards (see page 77)**
	The principle risks of the bank's own operations and within the value chain	Yes	**Reporting standards (see page 77)**
	The management of those risks	Yes	**Reporting standards (see page 77)**
	Non-financial performance indicators	Yes	**Reporting standards (see page 77)**

Subjects	Aspect	Added yes/no	Chapter/ Page reference
Relevant subjects regarding the fight against corruption and bribery	The policies pursued, including due diligence	Yes	**Integrity (see page 66)**
	The results of the policies pursued	Yes	**Integrity (see page 66)**
	The principle risks of the bank's own operations and within the value chain	Yes	**Integrity (see page 66)**
	The management of those risks	Yes	**Integrity (see page 66)**
	Non-financial performance indicators	Yes	**Integrity (see page 66)**
Insight into the diversity policy (Executive Board and Supervisory Board)	The policies pursued	Yes	**Corporate Governance (see page 100)**
	Diversity targets	Yes	**Corporate Governance (see page 100)**
	Description of how the policy is implemented	Yes	**Corporate Governance (see page 100)**
	The results of the policies pursued	Yes	**Corporate Governance (see page 100)**

GRI INDEX

GRI SUSTAINABILITY REPORTING GUIDELINES

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Top 7 of material topics		
1	Facilitating water safety, climate mitigation and biodiversity among water authorities Own indicator: Water Bonds volume 2019, volume of lending to water authorities in 2019	**Bank of and for the public water sector**
2	Facilitating affordable and sustainable social housing Own indicator: volume of Affordable and SDG Housing Bonds, volume of lending to housing associations in 2019	**Key player in financing the Dutch public sector**
3	Availability of financing Own indicator: total lending volume in 2019	**Key player in financing the Dutch public sector**
4	Providing financing at the lowest possible cost Own indicator: Credit spread on Netherlands Government Bond	**Key player in financing the Dutch public sector**
5	Facilitating renewable energy projects Own indicator: volume of lending to renewable energy projects	**Financing partner for enhancing sustainability in the Netherlands**
6	Financially stable bank Own indicator: Financial ratios	**Sustainable, efficient and socially committed organisation**
7	Sustainable funding Own indicator: volume of sustainable finding as % of total funding in 2019	**Financing partner for enhancing sustainability in the Netherlands**

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.

Data leaks
Access to or destruction, alteration or release of personal data at an organisation without this being the organisation's intention, or without it being legally permitted.

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)
GRI is 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 Water Bonds, the proceeds of which are used to finance 'green' water authority projects.
NWB Bank applies the Green Bond Principles, which are the leading standard on 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
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.

Partnership for Carbon Accounting Financials (PCAF)
PCAF has 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.

SDE+
The Stimulation of Sustainable Energy Production (SDE, after that: SDE+, as of 2020: SDE++) is a ministerial agreement aiming to stimulate the production of clean and sustainable energy.

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. The bank sees its shareholders, clients, investors, employees, supervisory authorities and the government as stakeholders as well.

Sustainable Development Goals
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 are a key frame of reference in this endeavour.

Sustainability exclusion criteria
Within the 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.

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	Autoriteit Financiële Markten (Netherlands Authority for the Financial Markets)
AGM	Annual General Meeting of Shareholders
ALCO	Asset & Liability Committee
AUD	Australian dollar
AT1	Additional Tier 1
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
CAD	Canadian dollar
CDD	Customer Due Diligence
CEB	Council of Europe 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
DGS	Deposit Guarantee Scheme
DNB	De Nederlandsche Bank (Central Bank of the Netherlands)
DSI	Dutch Securities Institute
DV01	Dollar Value of a Basis Point
DVA	Debit Valuation Adjustment
EBA	European Banking Association
ECB	European Central Bank
ECP	Euro Commercial Paper
EI	Energy Index
EIB	European Investment Bank
ECG	Export Credit Guarantee
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EY	Ernst & Young Accountants LLP
GBP	British pound

Abbreviation	Description
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	Inter Bank Offered Rate
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
IRRBB	Interest Rate Risk in the Banking Book
JPY	Japanese yen
JST	Joint Supervisory Team
KPIs	Key Performance Indicators
LCR	Liquidity Coverage Ratio
LiST	sensitivity analysis of liquidity risk
MIS	Management Information System
MSCI	Morgan Stanley Capital International
NFRC	Non-Financial Risk Committee
NHG	National Mortgage Guarantee
NOK	Norwegian krone
NSFR	Net Stable Funding Ratio
NVB	Nederlandse Vereniging van Banken (Dutch Banking Association)
NZD	New Zealand dollar
ORM	Operational Risk Management
PARP	Product Approval and Review Process
PAW	Programma Aardgasvrije Wijken (Programme for Gas-free Districts)
PCAF	Partnership for Carbon Accounting Financials
PPP	Public-Private Partnerships
QE	Quantitative Easing
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RES	Regional Energy Strategy
RMBS	Residential Mortgage-Backed Securities
SDE	Stimulering Duurzame Energieproductie (Stimulation of Sustainable Energy Production)

Abbreviation	Description
SDGs	Sustainable Development Goals
SEK	Swedish krona
SHH	Stichting Humanitas Huisvesting (housing association)
SRB	Single Resolution Board
SPP	Strategic Personnel Planning
SREP	Supervisory Review and Evaluation Process
SRI	Socially Responsible Investing
SRM	Single Resolution Mechanism
SSA	Sovereigns, Supranationals and Agencies
TEA	Thermische energie uit afwalwater (thermal energy from wastewater)
TED	Thermische energie uit drinkwater (thermal energy from drinking water)
TEO	Thermische energie uit oppervlaktewater (thermal energy from surface water)
USCP	US Commercial Paper
USD	American dollar
VAT	Value-Added Tax
VM	Variation Margin
WFZ	Waarborgfonds voor de Zorgsector (Healthcare Sector Guarantee Fund)
WSG	Woningstichting Geertruidenberg
WSW	Waarborgfonds Sociale Woningbouw (Social Housing Guarantee Fund)
Wwft	Wet ter voorkoming van witwassen en financieren van terrorisme (Dutch money laundering and terrorist financing prevention act)

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Questions or comments

If you have any questions about or comments on this annual report, please do not hesitate to contact us by email: **persinfo@nwbbank.com**.

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