NWB BANK

Annual report

2021

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Chapters 1, 2 and the Corporate governance and Risk management paragraph in chapter 3 together form the annual report as referred to in Section 2:391 of the Dutch Civil Code. Insofar as it relates to NWB Bank's risk management, the Risk management section in chapter 4 is also part of the annual report from that perspective.

AT A GLANCE

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NWB BANK 2021 **FACTS AND FIGURES**

NET PROFIT

€121 MILLION

2020: €81 MILLION

13.0% COST/INCOME RATIO

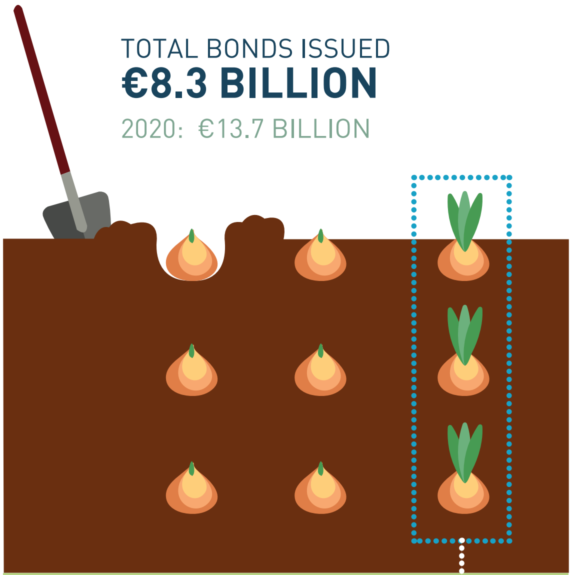
2020: 22.2%

FUNDING

TOTAL BONDS ISSUED

€8.3 BILLION

2020: €13.7 BILLION



OF WHICH
ESG BONDS

€3.55 BILLION

SDG HOUSING BONDS
€3 BILLION

WATER BONDS
€550 MILLION

LENDING

€12.1 BILLION

TO THE DUTCH PUBLIC SECTOR

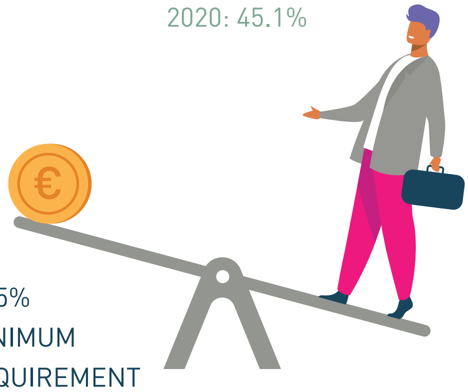
2020: €10.3 BILLION

HOUSING ASSOCIATIONS	€7.693 BILLION	64%
WATER AUTHORITIES	€1.3 BILLION	11%
MUNICIPALITIES AND JOINT SCHEMES	€1.222 BILLION	10%
GREEN PASS-THROUGH NHG RMBS	€625 MILLION	5%
HEALTHCARE INSTITUTIONS	€541 MILLION	4%
RENEWABLE ENERGY	€203 MILLION	2%
DRINKING WATER COMPANIES	€161 MILLION	1%
GOVERNMENT-GUARANTEED LOANS	€158 MILLION	1%
PUBLIC-PRIVATE PARTNERSHIPS (PPP)	€112 MILLION	1%
OTHER	€76 MILLION	1%

CAPITAL RATIO

38.0% CET1 RATIO

2020: 45.1%



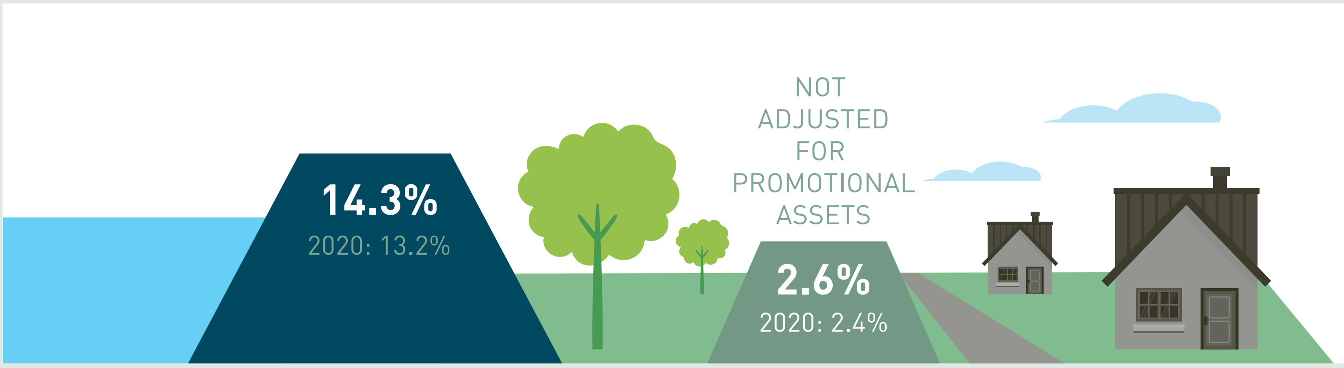
12.5%
MINIMUM
REQUIREMENT

TOTAL ASSETS

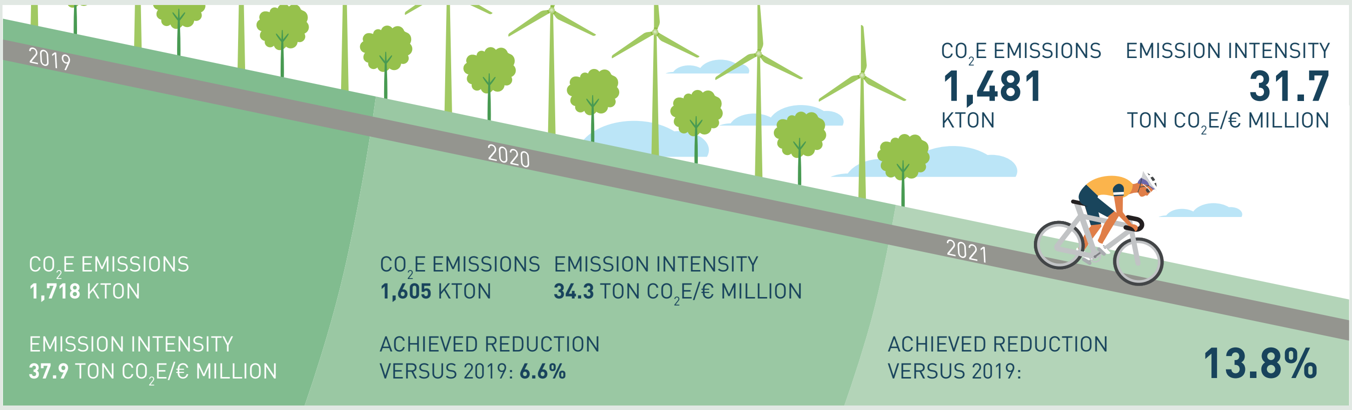
€96 BILLION

2020: €107 BILLION

LEVERAGE RATIO



CLIMATE IMPACT OF LOAN PORTFOLIO



KEY FINANCIALS

(in millions of euros)	**2021**[1]	2020	2019	2018	2017
Balance sheet					
Long-term loans and advances (nominal value)[2]	51,888	49,844	49,436	47,644	47,840
Equity	1,902	1,827	1,796	1,726	1,628
Tier 1 capital	2,083	2,049	2,010	1,938	1,820
Total assets	96,019	106,882	96,205	83,715	87,123
Risk-weighted assets	4,641	3,833	3,277	2,627	2,680
Results					
Net interest income	286	244	213	234	276
Results from financial transactions	-20	-55	-39	-48	-58
Operating income	266	189	174	186	218
Operating expenses	35	42	27	22	20
Bank tax and resolution levy	38	12[3]	22	27	28
Expected Credit Loss	-	-	-	-	-
Extraordinary income	-	-	11[4]	-	-
Income tax	72	54	41	37	47
Net profit	121	81	95	100	123
Dividend					
Dividend distribution	50.0	45.0	55.0	20.0	-
Dividend (in euros per share)	847.6	762.9	932.4	339.0	-

1) An explanation of the calculation of the quantities shown in the key figures is included in the 'Glossary'
2) Loans including interest-bearing securities, provided to regional authorities
3) Including a restitution of € 15 million for the years 2016 to 2018
4) Extraordinary income as a result of a change in the pension scheme

(in %)	**2021** [1]	2020	2019	2018	2017
Ratios (in %)					
Tier 1 ratio	44.9	53.5	61.3	73.8	67.9
CET 1 ratio	38.0	45.1	51.6	61.6	55.9
Cost/income ratio [2]	13.0	22.2	15.5	11.8	9.2
Dividend pay-out ratio	41.2	55.9	58.2	20.1	-
Leverage ratio [3]	14.3 [4]	13.2	15.1	-	-
Leverage ratio (not adjusted for promotional assets) [5]	2.6 [6]	2.4 [6]	2.3	2.5	2.3
Liquidity Coverage Ratio	183	150	204	222	179
Net Stable Funding Ratio	133	122	118	129	126
CSR					
Volume of ESG bond issuance in millions of euros	3,550	4,531	2,538	2,744	3,480
CO_2 emissions equivalents from operating activities p.p. (in tonnes)	1.2	1.5	2.8	3.7	3.9
CO_2 emissions equivalents PCAF portfolio coverage (in %)	93.6	94.6	95.1	-	-
CO_2 emissions equivalents loan portfolio (in kton)	1,481 [7]	1,605 [7]	1,718 [7]	-	-

1) An explanation of the calculation of the quantities shown in the key figures is included in the 'Glossary'.
2) 'Cost' concerns the operating expenses and 'income' the operating income
3) Taking into account the proportional calculation for promotional banks according to CRR II as of 27 June 2019
4) 53,0 taking into account Decision (EU) 2021/1074 of 18 June 2021 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (ECB/2021/27)
5) Not taking into account the proportional calculation for promotional banks
6) Taking into account Decision (EU) 2021/1074 of 18 June 2021 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (ECB/2021/27)
7) Based on 93.6% of the loan portfolio (2020: 94.6%); The 2020 and 2019 figure is recalculated to the most actual methodology

HIGHLIGHTS: LARGER IMPACT THROUGH INCREASED LENDING AND REDUCED CARBON EMISSIONS

In 2021, we provided a record amount of financing to our clients in the Dutch public sector. Total lending amounted to €12.1 billion compared to €10.3 billion in 2020. As such, we were able to consolidate our position in the financing of the Dutch public sector and contribute actively to the social and sustainable investment agenda in the Netherlands. The climate footprint of our loan portfolio is also decreasing in line with our commitment to the National Climate Agreement.

- Record amount of loans provided to clients in the Dutch public sector
- Renewable energy portfolio continues to grow and important societal role fulfilled in Vestia loan exchange
- Climate impact of loan portfolio has sharply decreased over the past three years
- More than 40% of long-term funding raised with ESG bonds
- Net profit totalling €121 million

Partly thanks to the high volume of lending and a better interest rate result, our net profit was higher at €121 million compared to €81 million in 2020. As in 2020, our participation in the targeted longer-term refinancing operation (TLTRO) also contributed to the profit level last year because of its attractive rates. We have made €50 million of our net profit available to our shareholders as dividend.

SOCIAL AND SUSTAINABLE IMPACT

As a bank of and for the public sector, we do not pursue profit maximisation. With our tailor-made lending activities, we focus on achieving social and sustainable returns. Last year, for example, we were able to further expand our lending to renewable energy projects, including two wind farms for authorities, and we fulfilled an important societal role by facilitating a €650 million loan exchange between Vestia and other housing associations.

To meet our funding needs, we issue bonds in the international capital market. Last year, we raised over 40% (€3.6 billion) of our own long-term funding by issuing Environmental, Social and Governance (ESG) bonds. We issued four SDG Housing Bonds to finance social housing in the Netherlands and a Water Bond to finance water authorities. In total, we had over €18 billion in ESG bonds outstanding at the end of 2021. This is 31% of our total outstanding long-term funding.

CLIMATE FOOTPRINT OF LOAN PORTFOLIO FURTHER DECREASED

Since 2019, we have been calculating the climate impact of our loan portfolio using the Partnership for Carbon Accounting Financials (PCAF) methodology. Due to the availability of relevant data, we use the composition of the loan portfolio of the previous year for this purpose. The latest calculation shows that, at the end of 2020, our loan portfolio represented a total emission of 1,481 kilotons of CO_2 equivalent. This is 125 kilotons less than the total emissions at the end of 2019 and 237 kilotons less than at the end of 2018. The so-called emission intensity (tonnes CO_2 equivalent/millions €) of our loans has also decreased in recent years: at the end of 2020, it was 31.7 tonnes per million euros compared to 34.3 at the end of 2019 and 37.9 at the end of 2018. Together with this annual report, we have published our climate action plan which outlines our plans to bring down all CO_2 equivalent emissions from our lending to net zero by 2050.

OUTLOOK

In 2022, we expect to be able to meet the financing needs of the Dutch public sector in the same socially responsible and sustainable manner as last year. We are cautious in our forecast for net profit in 2022, partly because of uncertainties related to geopolitical developments. For the time being, the war in Ukraine, and its effect on the international capital markets, has had little or no negative impact on our bank. The positive effects of participating in the TLTRO will be more limited this year but, on the other hand, we expect a lower tax burden from the minimum capital rule and bank tax.

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. We are a national promotional bank. This means that, through our products and activities, we help public entities achieve their policy goals and that we strive for maximum social value creation in the long term.

On 1 February 1953, the Netherlands was struck by the North Sea flood. This disaster took 1,836 human lives and killed tens of thousands of animals. Approximately 100,000 people lost their homes and possessions. The material damage amounted to more than 5% of the national income. The Nederlandse Waterschapsbank was founded on 5 May 1954 to help the water authorities raise the substantial investment needed to protect our country against water. This means sustainability is in our organisation's DNA.

However, the bank was not founded as an immediate result of the disaster; plans were already being made to set up a bank for the water authorities in 1939. The board of the Association of Dutch Water Authorities took the final decision to start the bank in December 1952. The disaster in February 1953 accelerated both the need and desire for the establishment of the bank.

Initially, the bank aimed to secure loans at the best possible terms for the water authorities. But the founders also stressed that our bank was open to doing business with other public and semi-public organisations. Indeed, soon after the bank was launched, we began financing drinking water companies and municipalities, for example. Later, housing associations and healthcare institutions became clients. That is how NWB Bank became a key financier in the public domain over the years. For several years now, we have also been involved in financing Public-Private Partnerships (PPPs), and we finance renewable energy projects to directly contribute to the much needed enhancing of sustainability in the Netherlands.

As a bank of and for the public sector, our interests and values differ from strictly commercial banks. For example, we do not pursue profit maximisation, and we expressly focus on creating long-term social value. A healthy profit is a prerequisite for this. We are dedicated to a stable, sustainable financial sector, which in turn contributes to an economy that serves mankind while causing the least possible harm to the environment. We provide appropriate financing to our clients on the most favourable terms possible. This enables us to keep the burden on citizens as low as possible and work towards implementing affordable sustainable practices in the Netherlands.

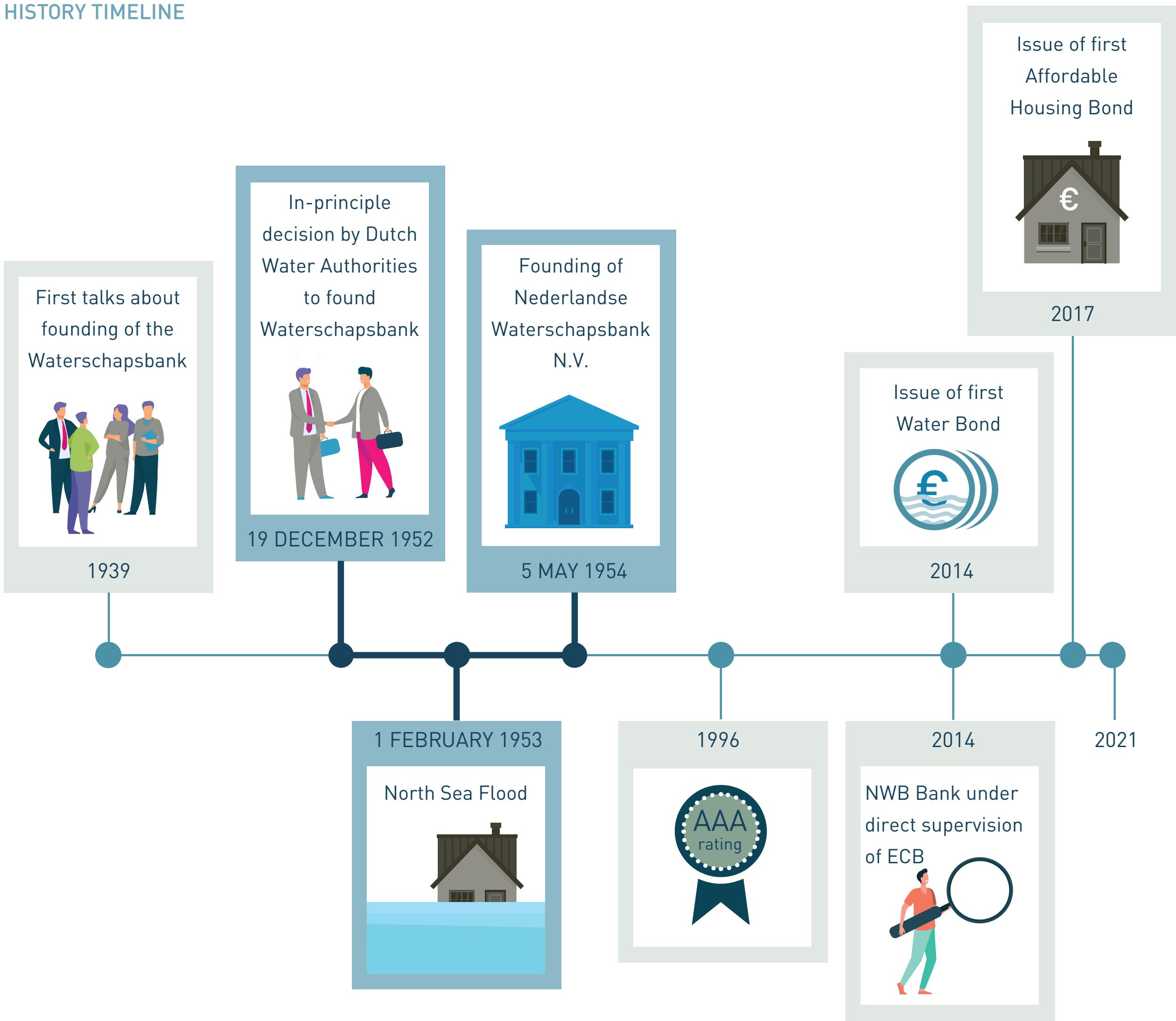
The need to enhance sustainability and the energy transition are key challenges for society and our clients. As a national promotional bank, we feel bound to contribute to these goals. The transition to a climate-neutral and circular economy, with a strong commitment to the restoration of biodiversity, will require major investments in the decades ahead, both worldwide and in the Netherlands. Renewable energy projects generally involve substantial financing needs and a long period during which the investment must be recouped. We are perfectly equipped to provide this type of long-term financing as a result of our significant balance sheet, efficient business model and excellent creditworthiness.

The bulk of our bank's loan portfolio comprises loans to local authorities or institutions guaranteed by local or regional governments. This is one of the reasons our bank has the highest credit ratings: AAA/Aaa, and we rank fifth on the list of the world's safest banks. Our high credit ratings, financial expertise and efficient operations mean we can always respond actively to the Dutch public sector's financing needs, even in difficult times.

We raise the funds we lend to our clients in the international money and capital markets. To the greatest extent possible, we try to raise funds by issuing so-called ESG bonds (Environmental, Social and Governance). For instance, we finance the water authorities' activities with specific Water Bonds (Green Bonds). To finance social housing, we issue SDGs (Sustainable Development Goals) Housing Bonds and, in the past, Affordable Housing Bonds. The experience and expertise we've acquired from these activities in recent years, combined with the large volume, means our bank is a prominent player in the international field of ESG bonds. In the Netherlands, we are even the largest issuer of ESG bonds.

As a significant bank, we are 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, we have maintained our compact and efficient organisational model. The flat organisation and open culture make NWB Bank an agile and efficient organisation in which transparency and integrity are of paramount importance.

HISTORY TIMELINE



REPORT OF THE MANAGING BOARD

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Interview

Lidwin van Velden

Chair of the Managing Board/Executiv

"We are growing ever more confident that everything is now falling into place"

Last year was an extraordinary year in many ways, not least because of the COVID-19 pandemic. How did you experience it?

"For a short time during the summer, we thought that we were well on our way towards a 'new normal'. We had already adopted a hybrid working model which gives our colleagues the possibility to come into the office on some days of the week and to work from home on other days. Unfortunately, it then proved that we hadn't got the pandemic completely under control, and this meant that we – both ourselves as an organisation and society as a whole – had to reintroduce certain restrictions. It was something that I experienced as a big disappointment.

In the light of my role and responsibility as the CEO, I had previously decided very consciously that I would spend at least half of my time in the office. I believe it's vital for me to keep in close touch both with day-to-day operations and with my colleagues. The hybrid working model gives everyone the flexibility to strike the right balance. Personally speaking, I feel that face-to-face meetings are an important facet of our work, particularly as creative inspiration and teamwork are necessary to achieve our mission as the sustainable water bank. Personal contact is especially important for the large number of new colleagues who decided during the course of the pandemic to come and work for us and contribute to this."

What do you feel were the biggest milestones of 2021?

"Our strategic review was a key moment for me. We took plenty of time last year to assess our progress in implementing the strategy of the sustainable water bank that we had adopted in 2018 and which we put into action in 2019. The strategy had been in full swing for exactly 2½ years by the summer, and so our mid-term review enabled us to assess what we had achieved and where any adjustments needed to be made.

The overall conclusion was that we are pleased with the way things are going! We are growing ever more confident that everything is now falling into place. The public debate about climate, nature and sustainability was of course already gaining traction in 2018, but things have gone into overdrive in the past couple of years. You only have to see how much attention the new government's coalition agreement devotes to sustainability to see how things have changed. As a bank of and for the public sector, our aim is to do our best to enhance sustainability in the Netherlands, and we are more than willing to act as a frontrunner in this respect.

It was a big step for us to take on a slightly higher degree of risk in financing renewable energy projects. I am proud to report that our portfolio of renewable energy loans is now amounting to more than €1.1 billion. Our aim is to expand this portfolio, while retaining a clear link with the public sector. We do not finance projects that qualify for fully commercial funding.

We have also devoted a great deal of time and energy to analysing our own climate impact. After all, this is very much the bottom line these days. After joining the Partnership for Carbon Accounting Financials (PCAF) in 2019, we first reported on the climate impact of our lending activities in 2020. For three years in a row now, we have succeeded in presenting a more or less complete picture of the climate footprint of our lending. And I'm pleased to see that our level of emissions is on the decline – in both absolute and relative terms.

Our long-term goal is for our lending to generate net zero greenhouse gas emissions by 2050. Having committed ourselves to the National Climate Agreement adopted by the Dutch government, we worked hard last year to draw up our 'climate action plan'. Reducing the carbon footprint of our lending is not something that we can do overnight, and we have a responsibility to meet the goals set in the Paris Climate Agreement. During the past year, we formulated a series of emission reduction targets, with the aim of reaching net zero emissions in a number of stages. We combine transparency with a high level of ambition in this connection: these are minimum targets and our ambition is to go beyond them."

Your climate action plan, which was published simultaneously with this annual report, explains how you intend to achieve the targets set out in the Paris Climate Agreement. But how is it actually going to work in practice?

"We intend to engage our clients in an active dialogue about their own climate goals and performance. Our plan is to ask as many clients as possible to inform us about their plans and achievements, which we will then assess. We also intend to engage with the sector as a whole on the basis of the overall picture. We can then use this information as a benchmark when engaging with individual clients about where they stand in relation to the targets applying to the rest of their industry.

I should point out that we are not going to be restricting our discussions with clients to only climate-related issues. We'll also be looking explicitly at aspects such as biodiversity and the circular economy. There's a clear connection between biodiversity and the climate: forests, for example, are important not just for the climate, but also for the preservation of nature and ecosystems. Apart from committing ourselves to the Climate Agreement, we also signed the Finance for Biodiversity Pledge, under which we promised to measure – and reduce – the impact of our activities on biodiversity. To this end, we joined the Partnership for Biodiversity Accounting Financials (PBAF, which is a kind of biodiversity kid brother of PCAF). Against this background, we performed our very first biodiversity impact study for one of our clients last year. It's heart-warming to see that the water authorities are also taking a great deal of interest, not just in improving the water quality, but also in ecological management, nature-friendly waterway banks, wildflower dykes and the nature-inclusive design of water storage basins."

What are you going to do to speed up the greening of the economy?

"I'm very glad you ask this question, as I am a firm believer in the value of setting an example and taking responsibility. We feel there are plenty of opportunities for us as a bank to speed up the energy transition. One excellent way of doing this is by financing renewable energy projects. We can then put the knowledge and experience we derive from this type of project finance to good use for other clients of ours, such as water authorities and municipalities. Of course, they are also keen to work on sustainability, preferably in conjunction with other public-sector initiatives – as on regional energy strategies, for example. We can tell them about the different types of finance that are on offer, for example by explaining the difference between project finance and balance sheet financing. And we can do our best to identify openings for joining forces with other parties in devising forms of sustainable finance. The Climate Fund for Agriculture is a good example of how this can work in practice: it's a fund involving the Ministry of Agriculture, Nature and Food Quality (among other parties), which is designed to provide finance for projects that improve the sustainability of the agricultural industry and help to preserve biodiversity.

Another area in which we are planning to become active is the provision of what are known as sustainability-linked loans. These involve agreeing a number of sustainable KPIs in advance with the borrower. These could relate to a reduction in carbon emissions, for example, or the expansion of an area under ecological management. But they could also relate to for instance the diversity of the borrower's organisation. If the borrower manages to achieve the targets for its KPIs, we then grant it a discount on the interest of the loan. In other words, we give away a bit of our profit margin. It's all about putting your money where your mouth is, as they say. Engagement on its own is a bit painless in my opinion.

As the country's leading sustainable water bank, we also want to encourage innovation and sustainability in the public water sector. The Aquathermal Energy Green Deal is a good example of this. This is a high-priority issue for the water authorities and it's an area which we believe offers great opportunities for speeding up the energy transition. We deliberately signed up to the Green Deal some time ago, the idea being to see whether we could make use of our expertise in finance and governance to contribute ideas and learn new things right from the start of the project, so that we're primed and ready to go as soon as requests for project finance start to come in.

As a final point, I feel that it's important that we seek to contribute more broadly to boosting the sustainability of the financial sector. This we do, for example, through our active membership of the Biodiversity and Circularity Working Groups of the Sustainable Finance Platform set up by the Dutch central bank."

You devoted a lot of time and energy to strengthening your organisation last year, which also saw the launch of the Lighthouse change programme. Can you tell us a bit more about this?

"In 2020, together with out management team, we set four priorities for our internal organisation. As a growing organisation, it became clear to us that we need to invest into – and strengthen – our internal organisation. We also took away a number of important lessons from the fraud incident at the beginning of last year. I realised that we had an opportunity to combine all these various aspects and to speed up the process by starting a programme of comprehensive change that we called 'Lighthouse'. By combining all the individual projects and initiatives in the form of a single, bank-wide programme, we have a much better and integral overview of what is going on. It enables us to involve all our staff and also to create an effective mechanism for reporting the results to the Supervisory Board.

The change programme itself consists of three workstreams. The first is the 'Stable bank' workstream, which is all about strengthening our controls in relation to lending and the credit management of our loan portfolio. The second workstream is called the 'Bank of the future' and – as the name suggests – involves getting together to make plans for the future. Two key elements here are digitalisation and the integration of ESG in our primary processes. The third workstream is called 'Winning work environment; great bank to work'. The main aspects here are internal communication, corporate culture and risk awareness. The Lighthouse programme is teaching us as an organisation how to deal better with change. I can see that it's already had a very positive impact on our organisational dynamic."

How were relations with the Supervisory Board in 2021?

It was, of course, a year of considerable upheaval, in part due to the discovery of the fraud incident at the start of the year and also due to the launch of the change programme. The Supervisory Board played an important advisory role in connection with the handling of the fraud incident. They were available at all times to provide us with help and advice on the strength of their vast pool of knowledge and experience, both in response to our own requests and on their own initiative. I should mention that we also received a great deal of support from our shareholders, which I thought was absolutely fantastic. As the year progressed, so the main topics of our discussions with the Supervisory Board moved away from the fraud incident towards other areas and we were able to leave the incident behind us. During the second half of the year, we switched our joint focus more to the mid-term review of our strategy and to the change programme."

Housing is a key aspect of the new coalition agreement. What role do you see for NWB Bank in this connection?

"Given that we are responsible for the financing of over a third of all new social housing in the Netherlands, housing is by definition also an important issue for us. Against this background, we wish to actively contribute to the debate on this issue. I'm personally a member of the Think Tank on the Future of the Housing Market. As a bank, we're in regular talks not just with our clients, but also with the responsible ministries, industry associations and the guarantee funds and regulatory authorities for the housing associations.

It has now become clear that we really need a comprehensive plan covering all aspects of the future housing market. We need to think carefully about how we can best future-proof our country so housing remains both sustainable and affordable, now and in the future. It's very much a multifaceted issue, which is why we need a comprehensive plan. For example, the water authorities and the Delta Programme Commissioner have both called for climate change and flood protection to be explicitly factored into future house-building plans. The new coalition agreement states that water and soil quality must be guiding principles in all future spatial planning. I welcome the fact that we once again have a Minister for Housing and Spatial Planning."

NWB Bank organised an event called Women in Water last year. What sparked this idea?

This was one of my own personal highlights of the past year. The idea for the event came from one of our colleagues within the bank. Initially, the plan was to organise an internal event about careers, status and networking, but the more we thought about it, the more it became clear that we needed to take a broader perspective. We immediately decided to put words into action and invited women from a wide range of important roles in the water industry to contribute to the networking part of the programme. And there are plenty of them, including on our own Supervisory Board! I thought it was great for us as a 'water bank' to be able to offer a platform to women within the water industry."

What topics do you think are going to dominate the bank's agenda in 2022?

"At a strategic level, I believe that we need to retain our focus on sustainability. The new Dutch government has embraced sustainability as one of its key priorities, and I believe that we can and must play a role in this, in line with our corporate strategy. I was delighted to read that the new Minister of Finance believes that state-owned enterprises have an important contribution to make in meeting the government's climate objectives. As a public-sector bank, we will be expected to do our best to help green the financial industry and pave the way for green investments, and also to set an example in terms of corporate social responsibility. This is a key message and I look forward to engaging in dialogue with her about it.

The second point here is the need to anchor ESG more deeply in our own organisational structure. Sustainability has to become an even more integral part of our primary processes. It can't be just an add-on. On the contrary: it's core activity and this should be reflected, among other things, by the way in which we put our climate action plan into effect. Our staff are tremendously keen to do more with ESG. We have specifically included the further integration of ESG into our primary processes in the second workstream of the Lighthouse programme ('Bank of the future').

The third big topic of the year will the further growth of our organisation. As we are now in the midst of a growth spurt, we need to stop and think carefully about the structure of our organisation and the way in which we all work together. This is the key issue in the third workstream of the Lighthouse programme ('Winning work environment; great bank to work')."

THE WORLD, EUROPE AND THE NETHERLANDS IN 2021

The past year was again dominated by the COVID-19 pandemic. Drastic restrictions on social contacts were imposed during large parts of the year to prevent the coronavirus from spreading. Working from home became the new normal for most of the year. By the time the summer came round, it looked as though the government's vaccination strategy was starting to pay off, as both case numbers and hospital admissions declined. The end of the pandemic finally seemed to be in sight, but these hopes were dashed by the rapid spread of the Omicron variant in the autumn, and by the end of the year the country was again in a lockdown.

STRONG ECONOMIC RECOVERY, BUT WITH HIGH INFLATION

Despite the restrictions, the economy (not just in the Netherlands, but also in the rest of Europe and around the world) nonetheless recovered well from the knocks it had received from the COVID-19 pandemic since 2020. The Dutch economy rallied strongly after the first wave of the pandemic, thus illustrating its great resilience. The growth came mainly on the back of a rise in household consumption coupled with strong growth in international trade and government expenditure. Broadly speaking, economic recovery in the Netherlands was stronger than in the rest of the eurozone. At the same time, however, inflation resurged throughout the world, with the rate of inflation in the Netherlands hitting 5.7 per cent (on an annualised basis) in December. High energy prices, gas in particular, were the main culprits. The sharp decline in the economy during the pandemic, followed by rapid recovery (with occasional lockdowns in certain countries), created shortages of a wide variety of commodities and products.

THE ECONOMIC INFLUENCE OF THE CENTRAL BANK AND THE GOVERNMENT

The European Central Bank (ECB) believes that the current high rate of inflation is in theory a temporary problem, partly because it expects the shortages to subside in due course. For this reason, the ECB did not adjust its policy interest rates last year, and left the deposit rate at -0.5% throughout the year. Similarly, the ECB did not make any changes to its economic stimulation programmes (aimed at countering the effects of the COVID-19 crisis) at any point during the year. Thus, banks were able to continue to use the ECB's liquidity instrument, known as the 'targeted longer-term refinancing operation' (TLTRO), to borrow cheaply, the idea being that they would pass on the lower cost in their own lending to customers. In March, European banks raised €331 billion in TLTRO loans – the second highest level of borrowing to date. The ECB has in total lent €2,190 billion in the form of cheap TLTRO loans. In a change of course in the autumn, however, the ECB announced that it would probably not be extending its special Pandemic Emergency Purchase Programme (PEPP), which was due to expire at the end of March 2022.

Although the consensus in the summer was that these would no longer be required after 1 October, the Dutch government took various steps during the year under review to continue its policy of economic stimulation. Business owners plunged into financial difficulties by the COVID-19 crisis can apply for temporary financial support to cover their overheads and salary costs, for example. The total amount of extra expenditure incurred by the Dutch government on support schemes since the beginning of the pandemic now runs to tens of billions of euros. Although this has led to an increase in the national debt, the public finances remain under control for the time being and are also within the EU's public debt ceiling of 60% of gross domestic product.

A NEW COALITION AGREEMENT FOR A SUSTAINABLE FUTURE

Although general elections were held in the Netherlands on 17 March 2021, it was not until 15 December that a new government was able to present its coalition agreement. The intervening period was the longest ever amount of time taken to form a government in the Netherlands. Healthcare, the housing market and the relationship between the government and citizens are important issues in the agreement, which also devotes a great deal of space to the need to enhance sustainability in the Netherlands. In order to achieve climate neutrality by 2050, the target for the reduction in CO_2 emissions set for 2030 in the Climate Act has been ratcheted up to at least 55 per cent compared with 1990. As one of the means of achieving this objective, the government is planning to set up a dedicated €35 billion Climate Fund.

Our shareholders, i.e. the water authorities, are glad to see that the new government has very consciously adopted a climate-proof, water-aware approach. The coalition agreement makes clear that water and soil quality are to become even stronger guiding principles for spatial planning in the future. It became painfully clear in mid-July just how important it is for the government to continue its efforts to improve the protection of our towns, villages and infrastructure against extreme weather incidents, when the province of Limburg was hit by severe flooding caused by exceptionally heavy rainfall combined with high water levels.

Apart from the new Climate Fund, the government is also planning to set up a separate fund to pay for changes in agriculture and the restoration of the natural environment. The new government has set aside €25 billion to this end for the period until 2035. The fund will also be used to pay for a reduction in nitrogen emissions, as this is a necessary condition for restoring and preserving ecologically sensitive areas of the Dutch countryside. The coalition agreement also stresses the urgent need for tackling the problems on the housing market. Housing associations will be playing an important role in this process and have already expressed their support for scrapping a tax known as the 'landlord levy'. This will create more scope for them to invest in the construction of new houses, and also to ensure that these new builds are sustainable, liveable and affordable.

STRATEGY AND VALUE CREATION

STRATEGY

Mission

As a bank of and for the public sector, our mission is to help our clients create added value for society.

Sustainability is an important and integral part of this added social value. Sustainability is in our bank's DNA. Climate adaptation, climate mitigation and improving biodiversity are among the core tasks of water authorities, who founded our bank and who play an important role in the current energy transition. Another important group of clients, viz. housing associations, are expected to play a leading role in greening the built environment in the Netherlands. About 30% of the Dutch housing stock consists of social housing, and in the coming years, housing associations are planning to invest heavily in building new climate-neutral housing, making existing social housing more energy-efficient and keeping social rents low.

Vision

As a sustainable, efficient and socially engaged bank, we are always available for our clients. By offering them appropriate financing on the most favourable terms possible, we help to alleviate the financial burden on citizens and minimise the costs for enhancing sustainability in the Netherlands.

Ever since we were founded in 1954, we have focused on efficiently meeting the combined financing needs of our clients in the public sector. As a cost-conscious and risk-aware organisation, we use our AAA/Aaa ratings to raise funds in an inexpensive and sustainable way.

Long term

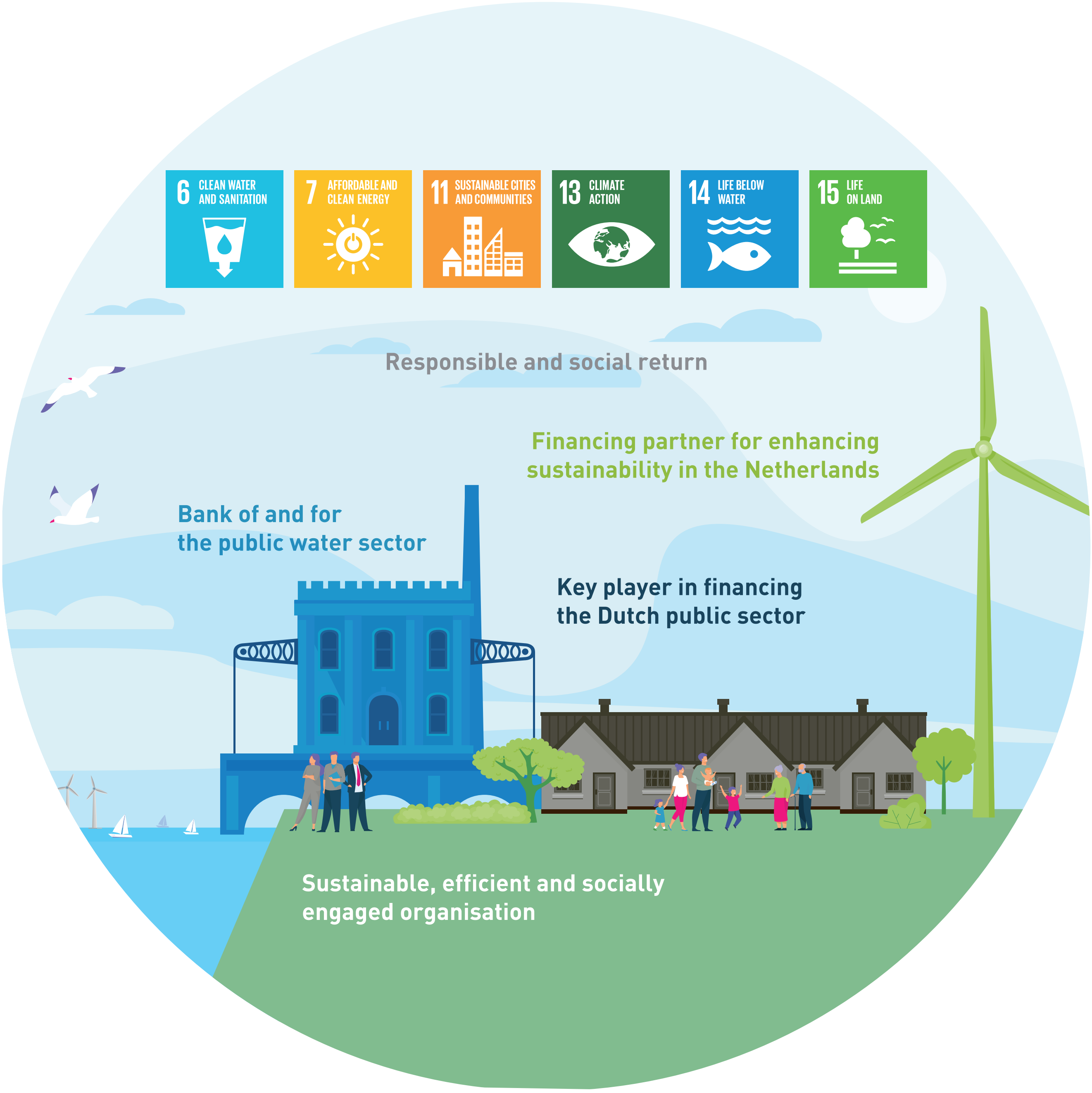
The Managing Board and the Supervisory Board have defined a number of criteria that our operations must meet for us to be able to offer added value to our clients, shareholders and other stakeholders. Key among these are the need to retain our high credit ratings and our status as a promotional bank. The latter means that, under EU law, at least 90% of our total lending must qualify as 'promotional lending' and hence help to achieve public-sector policy objectives.

We have a low risk appetite that is entrenched in our articles of association, and which is reflected by the fact that our activities are clearly linked to the Dutch public sector and are also identifiable as such by our shareholders, rating agencies and investors. This means that the bulk of our loan portfolio consists of loans to provincial and local authorities in the Netherlands, as well as loans guaranteed by these bodies. A final requirement that forms part of this strategic framework is that we should be well-equipped organisationally, in terms of both our commercial capacity and our risk management, to handle both existing and new tasks.

Medium term

In 2018, working within the confines of the strategic framework and in consultation with the Supervisory Board and our stakeholders, the Managing Board adopted a new medium-term strategy, known as the 'sustainable water bank' strategy. We set a number of concrete targets for 2019-2023 and last year extrapolated these for the period up to the end of 2026, based on the positive findings of the mid-term review of the results of our strategy. We have linked six of the UN's Sustainable Development Goals (SDGs) to our sustainable water bank strategy. These are the six SDGs that are most relevant to us and are – logically enough – the goals on which we can have the greatest impact.

STRATEGY OF NWB BANK



Our strategy consists of five themes: three pillars, a foundation and a keystone. These are explained one by one in the following sections, which also specify which of the six SDGs selected by us goes with each strategic theme:

1. We are the bank of and for the public water sector

We are the leading provider of all-round financial services for the water authorities. Our aim is to obtain the largest possible market share when it comes to financing these shareholders. By providing the water authorities with the appropriate financing at the lowest possible cost, we can help them fulfil their responsibilities for flood protection, water management and water quality. We raise the funds we need in order to lend to the water authorities by issuing green bonds.

Drinking water companies are also an important and long-standing client group of ours, and the loans we provide to these clients dovetail neatly with our profile as the sustainable water bank. The main task of drinking water companies is to provide households and businesses with an adequate supply of high-quality drinking water. Where possible, we wish to further expand our lending to this sector.

SDG 6 ('Ensure availability and sustainable management of water and sanitation for all') is an ideal fit for our role as the public-sector bank for the public water sector. Three other SDGs, viz. SDG 13, 14 and 15, are also relevant to this particular pillar.

SDG 13 is about 'taking urgent action to combat climate change and its impacts'. Adapting the Netherlands to climate change is one of the water authorities' focal areas. The water authorities are also active players in the campaign to halt the loss of diversity. This is an area to which SDGs 14 and 15 are also relevant.

SDG 14 is about 'conserving and sustainably using the oceans, seas and marine resources for sustainable development'. The water authorities ensure that the surface water is clean and ecologically healthy. Their aim is not only to guarantee the best possible water quality for water users (such as farmers, drinking water companies and the recreation industry), but also to create healthy biological and chemical conditions for the flora and fauna living in the water. Maintaining and improving biodiversity is a key priority in this endeavour.

The work of the water authorities has an impact on biodiversity not only in the water but also on land. That is where SDG 15 comes in: 'Protect, restore and promote the sustainable use of ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.' Managing and maintaining the water system means dealing with legislation on the natural environment, the bulk of which is to be found in the Nature Conservation Act. The section of this Act on the protection of species is intended to further the sustainable conservation of animal and plant species in the Netherlands. The water authorities have made a powerful commitment to strengthening biodiversity in the Netherlands in the years ahead.

2. We are a key player in financing the Dutch public sector

Our bank finances municipalities and provinces, as well as institutions backed by a government guarantee, such as housing associations, healthcare institutions, schools and universities, with the financing they need on the best possible terms. In terms of outstanding debt, the social housing sector is the biggest branch of the public sector and hence also our biggest client group. To extend our impact in this sector, we issue SDG Housing Bonds and use the proceeds as a source of finance for housing associations, thus helping them to maintain social rents at affordable levels and also to improve the sustainability of their housing stock.

We have provided almost €79 billion in long-term loans over the past 10 years. Our aim is to perpetuate our substantial market share in financing the Dutch public sector and, with total assets of almost €100 billion, we are a major player in the Dutch banking industry. Particularly in the public sector, we help to guarantee a financially sound, social and innovative playing field in which public funds are put to efficient and effective use.

We have adjusted our lending policy and product range over the years to meet the changing needs of the public sector. For example, we lend to public-private partnerships and we invest in NHG RMBS bonds (based on securitised mortgages covered by a National Mortgage Guarantee). We have also adopted a policy of lending to public-sector clients with a relatively small borrowing requirement – clients such as amateur sports clubs (whose borrowing is covered by a municipal guarantee). The relatively small scale of such lending makes it difficult to assist this type of client on a cost-efficient basis.
In many cases, the amount of time it takes to analyse both the sector as a whole and the individual client is disproportionate to the size of the loan. If we had to factor in all the costs incurred in undertaking a thorough analysis in the form of a surcharge on the cost of the loan, the result would be a relatively high-cost loan. However, in the light

of our social role, we have decided against doing this to ensure that we can provide these small-scale clients with appropriate finance on the best possible terms.

The SDGs that tie in with this pillar of our strategy are SDGs 11 and 13. SDG 11 is about 'making cities and human settlements inclusive, safe, resilient and sustainable'. Housing associations own approximately 30% of the total housing stock in the Netherlands and we are responsbile for about one-third of all new lending for social housing projects. SDG 13 is all about climate action. While housing associations are expected to act as frontrunners in enhancing sustainability in the Netherlands, local and provincial authorities also play a crucial role in increasing the country's resilience and adapting it to climate risks. Their tasks include climate-robust spatial planning and taking action to prevent flooding, drought and heat stress.

3. We are a financing partner for enhancing sustainability in the Netherlands

This is the most recent pillar of our strategy. Since 2019, we have been lending directly to renewable energy projects and infrastructure projects that have a crucial bearing on renewable energy, such as district heating networks. Government institutions and companies that have received a subsidy under the Renewable Energy Production Incentive Scheme (SDE+) can apply to us for project finance. Examples include solar and wind energy projects, as well as aquathermal energy projects. This is the vital role we play in bringing about an affordable energy transition in the Netherlands. In doing so, we are honouring our commitment to implement the Climate Agreement.

Our efforts to contribute to the transition to a climate-neutral, circular economy by providing appropriate low-cost loans dovetails with SDG 7 ('Ensure access to affordable, reliable, sustainable and modern energy for all'). It goes without saying that these activities are also closely linked to SDG 13 ('Take urgent action to combat climate change and its impacts').

A sustainable, efficient and socially engaged organisation

Our strategy is built on our status as a sustainable, efficient and socially engaged organisation. We are highly cost-efficient and are one of the most highly capitalised banks (on a risk-weighted basis) operating under the supervision of the ECB. This means a low cost-income ratio coupled with a high degree of flexibility. On the one hand, the diversification of our loan portfolio and the increasing demands being placed on banks will require further investments in knowledge, staff and systems. On the other hand, with our workforce of around 90 staff, we remain a highly cost-efficient organisation. To further strengthen the foundations underlying our strategy, we set ourselves four priorities in 2020 that we translated into the objectives of our Lighthouse change programme that we launched in 2021.

As a bank of and for the public sector, we are highly aware of our own social responsibility. Keen as we are to set a good example, we are taking action to improve the sustainability of our own business operations. For example, all new cars added to our fleet are electric vehicles, and we will be gradually improving our office's energy label over the coming years, so that it ultimately qualifies for an 'A' label. In spite of the relatively modest climate footprint of our operations, we will therefore also be contributing to SDG 13 ('Take urgent action to combat climate change and its impacts').

A responsible and social return

A 'responsible and social return' is the so-called capstone of our strategy. Although, as a promotional bank, we do not seek to maximise our profits, it is nonetheless important for us to make a reasonable level of profit to be able to achieve our objectives and distribute an appropriate dividend. Every year, we set a benchmark target return on equity in consultation with our shareholders. At the same time, we also focus explicitly on the social return of our lending activities. This means, first of all, taking account of the climate impact of our loans and also keeping this as low as possible. In line with our commitment to the National Climate Agreement, we have drawn up a climate action plan in which we outline how we will be reducing the CO_2 equivalent emissions associated with our lending year on year, culminating in net zero emissions by the year 2050 at the latest.

Core values

We can best discharge our role in society only if society as a whole, and our clients in particular, have confidence in our organisation and in the integrity of our dealings. To this end, 'conscious, committed and credible' are and will remain our core values. We expect our staff to actively uphold these values in their work. Moreover, we depend almost entirely on the international money and capital markets for our funding requirements. In addition to our outstanding creditworthiness, which is expressed by AAA/Aaa ratings equal to those awarded to the State of the Netherlands, integrity and transparency are also essential values. This applies not only to investors, but also to all of our other stakeholders.

VALUE CREATION

We have designed a 'value creation model' to express the value that we add to society and the process underlying this. The various components of this model all reflect our strategy, i.e. input, business model, output, outcome and impact.

Input

This part of the value creation model relates to our own specific qualities or characteristics, and the various types of 'capital' that we use in order to create value. The model divides 'capital' into six different categories: financial capital, social and relationship capital, human capital, intellectual capital, organisational capital and natural capital. The funding we obtain from our investors and the knowledge and experience of our staff are two examples of different types of capital. This part of the value creation model relates to the foundations on which our strategy is built, i.e. a 'sustainable, efficient and socially engaged organisation'.

Business model

This part of the model centres on our activities and the 'enablers' ensuring that our business model operates with maximum efficiency. Our enabling factors include risk management, corporate governance, compliance and our remuneration policy. Together, they ensure that we make effective, efficient and sustainable use of the capital available to us.

Output

As a bank of and for the public sector, our business consists of a single core activity, i.e. providing our borrowers with the financing they need on the best possible terms. For this reason, we regard our lending activities as our prime output. The model presents three financial flows mirroring the three pillars of our strategy: a bank of and for the public water sector, a key player in financing the Dutch public sector, and a financing partner for enhancing sustainability in the Netherlands.

Outcome and impact

Outcome and impact are all about assessing the added value that our clients create (with the aid of our loans) for us as a bank, and more in particular for society at large. Our strategy refers to this aspect 'a responsible, social return'. In other words, it's not just a matter of earning a financial return. It's also a question, for example, of the impact that our lending has on the climate. It is at this point in the model that we encounter the six SDGs on which we have the biggest impact.

VALUE CREATION MODEL

INPUT
WITH OUR SPECIFIC QUALITIES

BUSINESS MODEL
... WE MOBILISE LOW-COST CAPITAL

Sustainable, efficient and socially engaged organisation

Financial capital
We are well-capitalised and raise low-cost funding based on our high degree of creditworthiness and our significant size.

Social and relationship capital
We serve the broader Dutch public sector and act as a national promotional bank in all relevant networks.

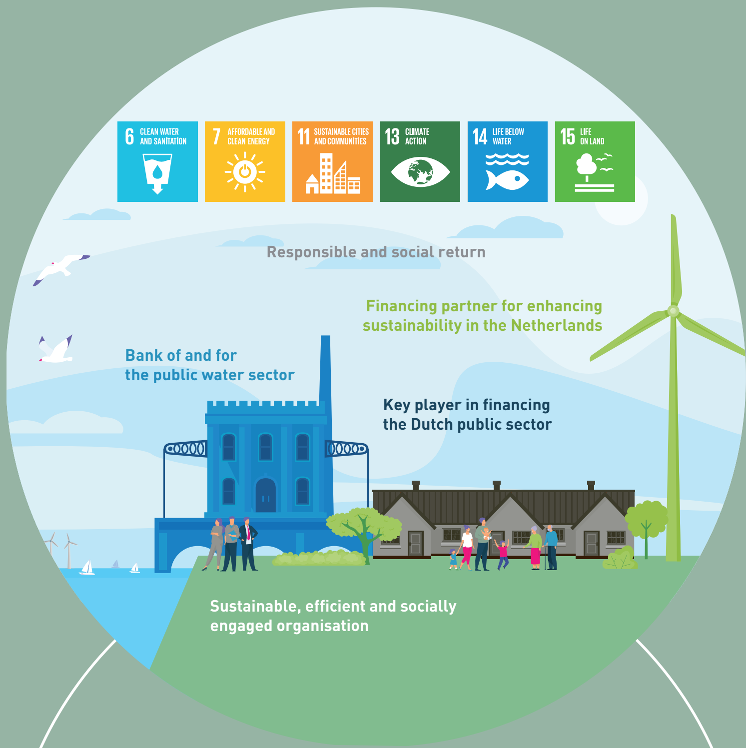
Human capital
Our employees are committed, well-educated and motivated to use their talents for our clients and stakeholders.

Intellectual capital
We are a frontrunner in the field of sustainable funding through ESG bonds.

Organisational capital
We are a professional and cost-conscious organisation with a solid governance structure and we highly value transparency and integrity.

Natural capital
We take measures to minimise the impact of our business operations on the climate and environment, and compensate for this where necessary.

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



By efficiently combining the financing needs of our clients and due to our AAA/Aaa ratings, we attract low-cost and sustainable financing for the Dutch public sector

Enablers
Risk management
Compliance
Corporate governance
Remuneration policy
Diversity & Inclusion

Core values
Conscious
Committed
Credible

OUTPUT
... FOR APPROPRIATE FINANCING FOR THE DUTCH PUBLIC SECTOR

OUTCOME
... TO EASE THE FINANCIAL BURDEN ON CITIZENS WHILE MAKING SUSTAINABILITY MORE AFFORDABLE

IMPACT
... AND TO CONTRIBUTE TO THE SUSTAINABLE DEVELOPMENT GOALS.

Bank of and for the public water sector

- WATER AUTHORITIES
- DRINKING WATER COMPANIES

Key player in financing the Dutch public sector

- HOUSING ASSOCIATIONS
- MUNICIPALITIES
- HEALTHCARE INSTITUTIONS
- GOVERNMENT-GUARANTEED LOANS
- PUBLIC-PRIVATE PARTNERSHIPS (PPP)

Financing partner for enhancing sustainability in the Netherlands

- RENEWABLE ENERGY

Responsible and social return

Financial capital
We have a significant market share in the financing of the Dutch public sector and realise a sustainable shareholder return.

Social and relationship capital
We keep the financing costs for our clients low thanks to retention of our AAA/Aaa credit ratings and high ESG ratings compared to our peer group.

Human capital
Our employees enjoy long-term employability, as well as extensive professional development opportunities and high employee satisfaction.

Intellectual capital
We share our knowledge and experience about among others aquathermal energy and biodiversity within both the public and financial sector.

Organisational capital
We are a transparent, open and efficient organisation that contributes to a diverse and innovative banking sector.

Natural capital
We are reducing the climate and biodiversity impact of our loan portfolio.

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

RISKS AND OPPORTUNITIES

Our strategy is designed to ensure that we maximise any opportunities we identify for earning a social return, while at the same time minimise the risks to which we are exposed. We are aware of our own strengths and weaknesses in this respect. All these various aspects are summarised in the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis presented below. It shows at a glance where we believe there are opportunities to be seized and where extra attention is required.

Let us take a closer look at the risks and opportunities, and in particular the (strategic) risks and opportunities relating to the climate. Our reports in this connection are based on the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board (FSB). We are planning to refine these reports on a year-on-year basis, in line with the further integration of climate-related risks and opportunities in our operational management.

Opportunities

Lending to renewable energy projects is a good example of an opportunity that we identified for helping to improve the climate in the Netherlands. The majority of these projects are associated with a relatively large financing requirement and a long payback period. We are ideally placed to offer this type of long-term project finance at a relatively low cost. Not only that, it also represents an opportunity to make an immediate contribution to cutting CO_2 emissions.

We also want to support our clients for whom the majority of our loans are in the form of balance sheet financing (such as water authorities, housing associations and local authorities) in discharging their responsibilities in relation to sustainability and the climate. It is more difficult to exert

SWOT ANALYSIS

Strengths
- Creditworthiness (AAA/Aaa ratings)
- Access to cheap, long and sustainable funding
- Compact and efficient organisation
- Engaged and sustainable shareholders
- Business model not cyclically sensitive
- Margin company with clear focus

Weaknesses
- Limited absorption and adaptation capacity of the organisation
- Limited diversification possibilities
- Low profit buffer in combination with leverage
- Focused on the Dutch public sector

Opportunities
- Financing the sustainability of the Netherlands
- Requested societal role
- Sustainability requires innovative financing and public-private partnership
- Embedding ESG in internal the organisation
- Sustainability-linked loans

Threats
- Political dynamics
- Capital market union/new entrants
- Changing role of government in guarantees
- Increasing operational complexity (e.g. cyber security)
- Increasing legislation and regulations with little room for proportionality
- Tight labour market
- Limited earnings capacity in combination with high tax burden and supervision costs

any direct influence with this type of lending, however, as we are not financing a specific investment or project, but rather the client's overall financing requirement. At the same time, this does not stop us from engaging in a dialogue with the client in question about their responsibilities in this area.

How we are planning to reduce the climate impact of our lending is one of the many points included in our climate action plan. This plan embodies our commitment to the 2019 National Climate Agreement and contains a number of concrete targets as well as a plan of action for further reducing the climate impact of our loan portfolio. Our climate action plan takes as its starting point the current climate impact of our loan portfolio – in the knowledge that we have had a good picture of the impact of the bulk of our portfolio since 2019. Every year, we analyse the CO_2 emissions associated with our loan portfolio and seek to achieve a year-on-year reduction in this figure, culminating in net zero emissions by 2050 at the latest. To this end, we set specific targets, both for sectors as a whole and for individual clients, which we then discuss with our clients. We are able to offer them a financial incentive to meet these targets in the form of a product known as the 'sustainability-linked loan'.

Risks

We have deliberately set ourselves a high bar in adopting the strategy of the sustainable water bank. There is a strategic risk here that we may not be able to achieve our strategic objectives. A strategic risk may arise, for example, if we fail to respond effectively to changes in our operating environment. As a bank of and for the public sector, we are, for example, particularly susceptible to the effects of changes in government policy. These may reshape our clients' financing requirements, and we have to be ready to respond proactively to such shifts. At the same time, as a bank, we need to ensure that we constantly comply with a burgeoning volume of ever-changing legislation. This, too, is a key concern of our strategic risk management. ESG-related risks in general, and climate-related risks in particular, are becoming an increasingly prominent feature of new legislation.

The changing climate creates its own risks for society and our clients – and hence also for us as a bank. We want to help mitigate these risks and protect ourselves as well as possible against them. During the past year, we embarked on an analysis of all relevant climate-related and environmental risks and we took further action to integrate ESG risks in our Risk Management Framework. We regard climate-related risks as factors that percolate through 'transmission channels' and ultimately impact our 'traditional' risk categories of credit risk, market risk, liquidity risk and operational risk. ESG and climate-related risks form an explicit part of our 'risk taxonomy' (see the section on risk management in the Governance chapter).

The regulatory authorities have published a series of discussion documents and guidelines on ESG risks in recent months. We performed a gap analysis of these guidelines at the beginning of 2021 and used the findings to start a risk identification process to pinpoint the ESG risks affecting the main client groups in our portfolio. We then performed a materiality assessment, which involved identifying the most material ESG risks for the various risk categories. The next step will be to see how these material ESG risks play out in relation to our main stakeholders. In addition to this, we will also be further integrating the material ESG risks during the coming year in our Risk Appetite Statement and in our credit risk management policy. We should point out here that we already take ESG risks into account in assessing loan applications. This means looking at factors such as the governance of housing associations and the Equator Principles in relation to project finance. We will also be expanding the ESG data set in order to improve the quality of our individual client assessments.

MANAGEMENT APPROACH

We have translated our strategy into concrete objectives and also into the tactical and operational targets set in our annual plans. The strategic objectives are adopted by our Executive Committee in consultation with the members of the management team and the Supervisory Board. They are then translated into targets, annual plans and budgets for the departments and staff concerned. The Executive Committee monitors the state of play in relation to the strategic objectives and reports on this to the Supervisory Board.

Sustainability targets form an integral part of our strategic objectives and annual plans. We believe that the aim of generating a social return should be fully integrated in our organisational structure and operating processes. This means that sustainability is factored into all decisions we take as a bank. For example, all loan proposals specify the SDGs to which the loan in question will contribute, and sustainability is a permanent agenda item at meetings of the Executive Committee and the Supervisory Board.

The full Executive Committee is represented on the bank's various risk committees, i.e. the Credit Committee, the Non-Financial Risk Committee and the Asset & Liability Committee. This gives the members of the Executive Committee a good picture of the sustainability risks, and in particular the climate-related risks, to which the bank is exposed. These risks are set to grow yet more important in the future, and we have for this reason taken on more staff at our Public Finance and Risk Management departments. This additional staffing should help us to make sustainability an even more prominent aspect of our marketing profile.

Because we believe that sustainability should be part and parcel of everyone's day-to-day work, we do not have a separate Sustainability department. We have, however, appointed a sustainability officer in order to further professionalise and motivate our staff on the issue of sustainability. The sustainability officer's job involves, *inter alia*, monitoring and identifying relevant developments in relation to sustainability, in areas such as impact measurement, products, stakeholder management and legislation.

We have a Corporate Social Responsibility (CSR) Committee whose task it is to prepare, scrutinise and amend plans and policy on sustainability-related issues. The CSR Committee is also responsible for formulating the bank's sustainability policy, which is published on our website. The CSR Committee is made up of staff from a range of departments and is chaired by our chief commercial officer. The CSR Committee reports to our Executive Committee, which is ultimately responsible for policy, management and control in relation to all sustainability-related issues affecting the bank.

Among the strategic and policy issues with which we concerned ourselves last year were our climate action plan, the development of sustainability-linked loans and the EU 'taxonomy for sustainable activities'. The first part of this European classification system for environmentally sustainable economic activities came into force on 1 January 2022. Although we are not formally obliged until 2024 to report on our own activities and those of our clients in accordance with this new EU regulation, we have consciously chosen to do so on a voluntary basis. This is an excellent way of preparing for mandatory disclosure and also of showing that we, as a sustainable bank, welcome the new regulation. In part due to the fact that disclosure is not yet compulsory, our report on the EU taxonomy is included in the appendix to this annual report entitled 'ESG Facts and Figures'. We have, however, done our best to make use of the templates prescribed by the EU authorities.

We have adapted our approach to the management of sustainability-related issues to our relatively compact office organisation and to our role as a provider of financial services to the public sector.

OUR STAKEHOLDERS

We regard our stakeholders as including, in any event, our shareholders, our clients, our investors, our staff, the supervisory authorities and the government. We keep in touch with our stakeholders on a regular basis to remain abreast of news and developments affecting them. Last year, most of these communications once again took place through digital channels. Our Executive Committee has a permanent responsibility for maintaining, intensifying and expanding the network of stakeholders. The various departments of the bank are also in regular contact with stakeholders at their own level on those matters for which they are responsible.

Shareholders

We have a relatively small number of shareholders, which gives us plenty of opportunity for regular, personal contacts. A formal Annual General Meeting (AGM) of shareholders is held once a year. During this meeting, the Managing Board reports on the financial results and the policy that it pursued during the past financial year, and presents the latest strategic developments. Interim meetings are also held at least once a year with the shareholder water authorities, and the Managing Board has quarterly meetings with representatives of the Ministry of Finance. The Ministry always takes a special interest in questions relating to corporate social responsibility during these meetings. We also have regular, but less formal interactions with our shareholders outside these scheduled meetings.

Clients and industry associations

We have around 1,000 clients and we wish to build and maintain a long-term relationship with all of them that, where possible, goes beyond a straightforward borrower-lender relationship. All our clients are either part of or operate in the Dutch public sector and for this reason feel a strong sense of social responsibility in which sustainability is of much importance. While this is one of the mainsprings of our own commitment to sustainability, it's a two-way street: in our meetings with our clients, we take every opportunity we can to highlight their responsibility for sustainability in general and the climate in particular. This is an area in which the Credit

OUR STAKEHOLDERS

Management team at our Public Finance department plays a leading role.

Apart from interacting with our clients on a regular basis, we are also in regular contact with industry associations, guarantee funds and the relevant supervisory and/or policymaking ministries.

Clients are entitled to lodge complaints in accordance with our General Terms and Conditions and our complaints procedure. We received two complaints about our services in 2021. These were dealt with in accordance with our complaints procedure.

Investors

We raise the bulk of our funding on the international money and capital markets by issuing bonds and commercial paper. In doing so, we try to attract investors who are not simply interested in the financial aspects, but who also factor sustainability-related arguments into their decisions. It is for this reason that we have been issuing ESG bonds since 2014.

The members of our Executive Committee and Treasury department have regular meetings with investors and potential investors in the bank's bonds, for example, during roadshows when they have an opportunity to explain our business model, strategy and activities, and also to find out what investors are particularly interested in. Since we started issuing ESG bonds, we have formed a growing habit of inviting investors to come and take a look at certain sustainable and social projects that have been financed with the proceeds of these bonds.

We actively seek to engage with our investors on sustainability, as indeed they do with us. Our investors keep us on our toes, using research bureaus and ESG rating agencies to assess our sustainability policy and the transparency of our activities and organisation.

Staff

Our aim is to foster an open dialogue, not just among our staff but also between our staff, the members of the management team and the Executive Committee. We set great store by an informal, open corporate culture. The doors in our office are always open. The Works Council is the official consultative body between the Executive Committee and our staff. The Executive Committee met with the Works Council on four occasions last year, and the topics discussed included the results of the staff satisfaction survey, strategic developments and the adoption of in-employment screening. The members of the Supervisory Board also attend the Works Council's meetings twice a year.

We have adopted a whistle-blowers' scheme to enable members of staff to report suspicions of any irregularities of a general, operational or financial nature without endangering their job status. Once again, no use was made of the whistle-blowers' scheme in 2021. We have also appointed a confidential counsellor.

Supervisory authorities

Both the Executive Committee and members of our staff have regular meetings with the supervisory authorities. We fall under the supervision of the ECB and the Dutch central bank, as well as the Netherlands Authority for the Financial Markets (AFM). The issue of sustainability is also proving to be a matter of growing concern for the supervisory authorities, who have been highlighting the climate-related and environmental risks faced by financial institutions. We engage in this dialogue with the supervisory authorities both as an individual entity and also jointly through the Dutch Banking Association's Sustainability Platform and the European Association of Public Banks.

Government

As a bank of and for the public sector, we greatly value our contacts with the local and provincial authorities, as well as with central government. We have regular meetings with representatives of the relevant ministries and, where possible in response to requests from the ministries, supply expertise for policy debates. Our regular meetings with the Ministry of the Interior and Kingdom Relations and WSW (the Social Housing Guarantee Fund) about the social housing market are good examples of this.

As the holder of a banking licence, we need to comply with specific laws and regulations such as the prudential capital requirements and the regulations on remuneration policy and taxation. For this reason, we attend regular meetings with a range of institutions, both in the Netherlands and at an EU-level. We often join forces with other banks, for example through the Dutch Banking Association and the European Association of Public Banks.

MATERIALITY ANALYSIS

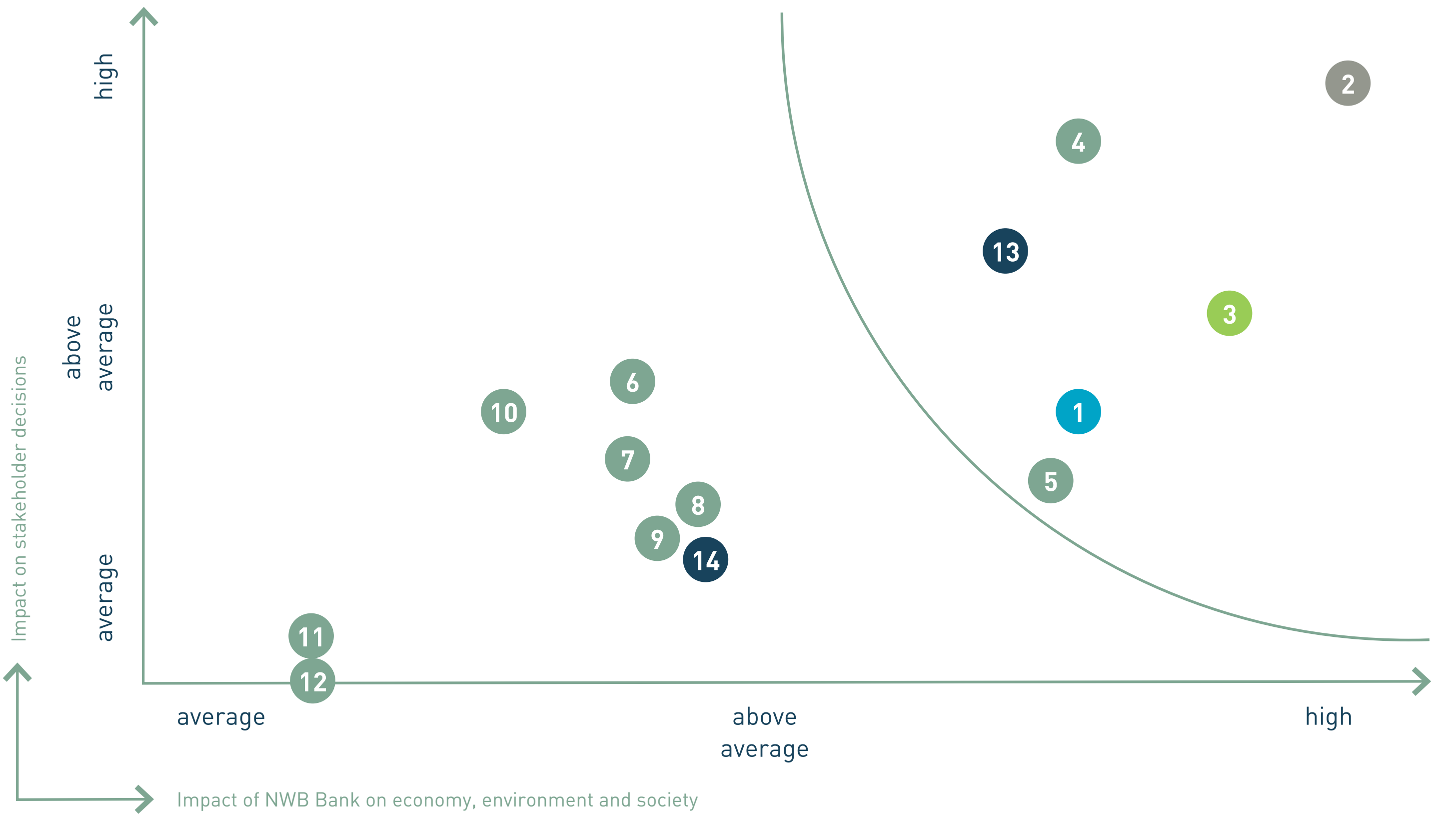
Every year, we decide on the economic, environmental and social topics on which we will be reporting in our annual report, in accordance with the Global Reporting Initiative (GRI) standards at the Core level. In order to decide whether a particular topic is relevant and sufficiently material to report on, we assess its relevance from our stakeholders' perspective and also look at our own impact (or potential impact) on the topic in question.

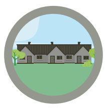
We performed a completely new materiality analysis in 2020. We involved our stakeholders in the process by giving them a list of material topics and asking them to select the five topics that they would regard as being the most relevant and important, plus the five topics that they would regard as being the least relevant and important. We asked our management team to do the same, selecting the topics from our own organisational perspective. We used the results to design a new 'materiality matrix', with the stakeholders' scores providing the input for the Y axis and the management team's scores being the input for the X axis.

We updated the matrix in 2021, based on a media analysis and with the aid of input from the meetings held throughout the year with our stakeholders. It was clear from these two sources of input that, for example, the climate impact of our lending activities has become an even more important topic for both our stakeholders and ourselves than it already was. We also concluded that the topic described as 'the digitalisation of services and operations' needed to be moved to a different point in the matrix in line with the priorities set in 2020 (including the further digitalisation of services and operations) and as incorporated last year in our Lighthouse change programme for the bank as a whole.

We identified a total of 14 material topics, and are reporting on seven of these in this section of the annual report ('Report of the Managing Board'). These are the six topics classified as 'most material' by both ourselves and our stakeholders, plus a seventh topic defined as 'financial returns for shareholders'. A report on 'Responsible remuneration policy' (one of the material topics) is included in the Remuneration Report and the remaining topics are covered – to greater or lesser degrees – in the appendix to this annual report entitled 'ESG Facts and Figures'.

MATERIAL TOPICS PLOT



MATERIAL TOPICS		STRATEGIC THEMES
1 Facilitating safe, clean and sustainable surface and drinking water		Bank of and for the public water sector
2 Availability and affordability of appropriate financing		Key player in financing the Dutch public sector
3 Contributing to climate mitigation, climate adaptation and biodiversity recovery		Financing partner for enhancing sustainability in the Netherlands
4 Safe, stable and efficient bank 5 Attract funding through ESG bonds 6 Integrity and transparent business operations 7 Social involvement 8 Privacy and data protection 9 Social impact of business operations 10 Digitalisation of services and business operations 11 Responsible remuneration policy 12 Environmental impact of business operations		Sustainable, efficient and socially engaged organisation
13 Climate impact of lending 14 Shareholder return		Responsible and social return

THE SUSTAINABLE WATER BANK: RESULTS AND IMPACT IN 2021

We report on NWB Bank's results and activities over the past year based on our strategy and value creation model.

Our strategic pillars take centre stage across the first three sections of this report: 'Bank of and for the public water sector', 'Key player in financing the Dutch public sector' and 'Financing partner for enhancing sustainability in the Netherlands'. These are all related to the bank's lending activities, which we consider our business model's most important output. For each client group, we indicate how much financing we provided last year, the size of our loan portfolio in relation to this client group and any special developments. We do this according to the materiality topics of 'facilitating safe, clean and sustainable surface water and drinking water', 'availability and affordability of appropriate financing' and 'contributing to climate mitigation, climate adaptation and biodiversity restoration', respectively.

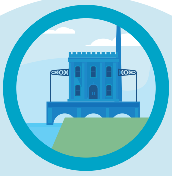
Following our strategic pillars, we turn to the foundation of our strategy: our sustainable, efficient and socially engaged organisation. The materiality topics of 'a safe, stable and efficient bank' and 'attract funding through ESG bonds' characterise our organisation, and allow us to explain how we use our resources to benefit society. These centre on the various types of capital that serve as input for our business model. They include people, our organisational structure and culture, and financial resources such as funding as well.

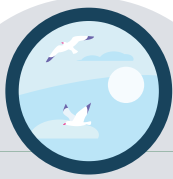
We will close this portion of the report with the capstone of our strategy: to generate 'responsible and social return'. Everything we give back to our shareholders as a national promotional bank and contribute to society through the financing we provide to our clients converges here. We consider this both the outcome and impact of our business model and take seriously the contribution we make to the Sustainable Development Goals through our lending activities. This section focuses on the material topics of 'shareholder return' and 'climate impact of lending'.

In each section, we have indicated how we sustainably implemented our strategy and policy and what results have been achieved for each materiality topic. At least one Key Performance Indicator (KPI) was used for each materiality topic. To the greatest extent possible, these KPIs are quantitative to ensure the results are measurable, transparent and easily comparable.

How these strategic themes, materiality 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 2021	IMPACT ON SDG
1 Facilitating safe, clean and sustainable surface water and drinking water	5	 Bank of and for the public water sector	Volume of new lending to water authorities	€1.3 billion	6 Clean water and sanitation; 13 Climate action; 14 Life below water; 15 Life on land
			Volume of new lending to drinking water companies	€161 million	
2 Availability and affordability of appropriate financing	1	 Key player in financing the Dutch public sector	Total volume of new lending	€12.1 billion	11 Sustainable cities and communities; 13 Climate action; 15 Life on land
			Average interest rate for new loans	0.19%	
3 Contributing to climate mitigation, climate adaptation and restoration of biodiversity	3	 Financing partner for enhancing sustainability in the Netherlands	Volume of new lending to renewable energy projects	€203 million	7 Affordable and clean energy; 13 Climate action; 14 Life below water; 15 Life on land

MATERIAL TOPICS	RANKING	STRATEGIC THEMES	KEY PERFORMANCE INDICATOR	RESULT 2021	IMPACT ON SDG
4 Safe, stable and efficient bank	2	 **Sustainable, efficient and socially engaged organisation**	Financial ratios	Tier 1-ratio: 44.9% CET1-ratio: 38.0% Leverage ratio: 14.3% LCR: 185% NSFR: 133%	13 CLIMATE ACTION
			Credit ratings	S&P: AAA Moody's: Aaa	
			ESG ratings	Imug: BB MSCI: BBB Sustainalytics: 9.1 ISS ESG: B- Vigeo Eiris: 56	
5 Attract funding through ESG bonds	6		Volume of ESG bonds as % of new bonds issued	43%	
			Volume of ESG bonds as % of total bonds outstanding	31%	
6 Integrity and transparent business operations	8		Number of complaints	2	
			Number of reports of bribery and corruption	0	
7 Social involvement	10		Internships filled	3	
			Sponsor budget	€125,000.-	
8 Privacy and data safety	9		Number of data leaks	1	
9 Social impact of business operations	12		% of vacancies filled internally	4%	
			% of training budget spent	95%	
			% of sickness absence	4.7%	
			Male-female ratio	62% male 38% female	
10 Digitalisation of services and business operations	7		% of clients in client portal	75%	
11 Responsible remuneration policy	13		Remuneration ratio of Chair of the Managing Board versus median of employees	3.9	
12 Environmental impact of business operations	14		CO_2e emissions generated by business operations	1.2 tonnes	
13 Climate impact of lending	4	 **Responsible and social return**	% of loan portfolio, of which the climate impact has been calculated	93.6%	6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND
14 Shareholder return	11		Return on equity	6.5%	
			Dividend payout ratio	41%	

BANK OF AND FOR THE PUBLIC WATER SECTOR

The water sector serves a major public interest. The floods in Limburg last summer proved that protection against water is becoming an increasingly significant challenge, primarily due to greater extremes in weather. At the same time, we are also more frequently experiencing extremely dry summers, which puts the security of the drinking water supply at risk. Water authorities and drinking water companies are jointly responsible for safe, clean and sustainable surface and drinking water. We support them by providing the most appropriate and affordable financing possible.

Water authorities

As a bank of and for the water authorities, we aim for the highest possible market share in this sector. In 2021, we granted a total of €1.3 billion in loans to the water authorities (2020: €1.2 billion). This represents a market share of more than 90%. The increase in lending to the water authorities is the consequence of the water authorities' major investment challenges. They notice the consequences of a changing climate every day and therefore invest heavily to limit climate change, adapt their infrastructure to the changing conditions and continue to provide sufficient and high-quality surface water. We facilitate them by providing appropriate financing at the most favourable rates.

At the end of 2021, we had a total of €7.577 billion in financing outstanding with the water authorities. At the end of 2020, this amounted to €7.172 billion and that corresponded to a climate impact of 292 kilotons of CO_2 equivalent. That represents an emission intensity of 40.7 tons of CO_2 equivalent per million euros.

Innovation in the water sector

The water authorities are always looking for new ways to make water management better, cheaper and more sustainable. A driving force behind this is innovation. Scaling up innovative projects often requires venture capital, but the provision of venture capital is not compatible with our risk appetite. To explore whether we might be able to play a role, we launched the NWB Water Innovation Fund in early 2021.

The NWB Water Innovation Fund is a self-governing entity independent from the bank. The fund finances water authorities' innovative projects with wide-ranging applications, which contribute to enhancing sustainability in the Netherlands. Projects might address climate adaptation, climate mitigation, the circular economy, biodiversity, water quality, water safety and the energy transition. Scaling up many of these projects is challenging because obtaining risk-bearing capital can be difficult. The NWB Water Innovation Fund is set up to help these projects after their pilot phase. The fund provides subordinated capital. It always involves co-financing: the fund contributes a maximum of 50% of the total risk-bearing capital required, while at least one-third of the total risk-bearing capital required is contributed by one or more of the water authorities. In 2021, focus was placed on the governance of the fund, as well as its public profile, but no funds were granted yet.

On a different front, we have been encouraging innovation in the water authority sector for years. Every two years, we present the Water Innovation Prize together with the association of Dutch water authorities. For this prize, we consider projects that address the various operations and responsibilities of water authorities. This year, the biggest challenges facing water authorities were highlighted in the following categories: Adapting to extreme weather conditions, Healthy water and soil, Climate neutrality and The water authority of the future. No fewer than 99 water managers and other water workers submitted innovative proposals for the Water Innovation Prize 2021. The jury, which included our chair Lidwin van Velden, selected 12 nominees. During the Water Innovation Festival, the four winners, as well as the winner of the Public Award, were announced. The next Water Innovation Prize will be presented in 2023.

Drinking water companies

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). Drinking water companies are long-standing and valued clients of our bank and we assist them by providing appropriate financing on favourable terms. Financing drinking water companies aligns perfectly with our strategy of being the bank of and for the public water sector.

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 tariffs and associated capital costs.

Last year, we provided €161 million in long-term financing to water companies (2020: €231 million). We were once again able to further increase our market share in this sector. The total volume of our outstanding financing with water companies at the end of 2021 amounted to €936 million (2020: €836 million). We are able to calculate a carbon footprint for 91% of our lending to drinking water companies, and this amounted to 24 kilotons of CO_2 equivalent in 2020. This means an emission intensity of 31.6 tonnes of CO_2 equivalent per million euros.

BANK OF AND FOR THE PUBLIC WATER SECTOR

Antoinet Looman
Executive Board Member at the Rijn en IJssel Water Authority

Peter Borghstijn
Project Finance Manager at NWB Bank

Neighbourliness is a top priority

THE RIJN AND IJSSEL WATER AUTHORITY BUILDS TWO WIND TURBINES IN DUIVEN

Waterschap Rijn en IJssel aims to be energy neutral by 2025. "To achieve this, we are focusing on a mixture of sustainable energy sources such as biogas, wind and solar energy. In Duiven, we are building two wind turbines on the site of our sewage treatment plant. The wind turbines were financed by NWB Bank. We want to be transparent in this process and continue to talk to our residents," says Antoinet Looman, Executive Board Member of the Rijn en IJssel Water Authority.

Transaction
Lending totalling €15 million

Key figures for the Rijn en IJssel Water Authority
200,000 hectares working area
21 municipalities
236 kilometres of dykes
3,500 kilometres of rivers, streams and ditches
1,841 weirs
13 sewage treatment plants
196 pumping stations

The water authority handles water management in the eastern part of Gelderland, the south of Overijssel and the south-eastern part of the Veluwe. This is a large operating area with rivers, dykes, streams and ditches between the Rhine and IJssel rivers.

"As a water authority," says Looman, "we are experiencing the consequences of climate change first-hand: more rain and water on the streets, longer periods of drought and extraction bans, and an increased risk of flooding. That is why we are working hard to mitigate the effects of climate change as much as possible. But we need to do more.

We take responsibility for our energy consumption and, as a water authority, we will minimise our impact on climate change. That is why we are focusing on conserving energy, cooperating with the surrounding area and generating renewable energy.

The first step in our sustainability efforts was the construction of biogas installations. We currently generate about 25% of our energy needs using biogas through sludge fermentation. The wind turbines in Duiven will ultimately contribute about 50% to our energy neutrality. Once completed, we will be about 75% energy neutral. Solar energy will account for the remaining 25%, along with the installation of wind turbines in Zutphen and increased biogas generation."

Together with Enercon, the wind turbine supplier that won the tender, the water authority is installing two 200-metre-tall wind turbines, each with a capacity of 4.2 megawatts. Together, these turbines can generate as much energy annually as 7,000 households consume.

Neighbourliness

"Our water authority is a transparent, democratically elected body with an important social function. That is why neighbourliness is a top priority for us. Even before we started making plans, we engaged in dialogue with those living in the surrounding area. To minimise any inconvenience, we decided to build the turbines on our own land, around our water treatment facilities," says Looman. "We carefully considered the potential impact of shade, light and noise from the wind turbines.
For example, we work to limit bothersome shadows cast on the façades of the houses. And the blades of the turbines will feature 'owl feathers', or trailing edge serrations, which are special serrations that make the turbines quieter. There will be a landscape plan, and we will take the local ecology into account."

Profit sharing

"In the name of neighbourliness," says Looman, "we are working on a profit-sharing scheme for those living in the immediate vicinity – which will see the water authority share about 20% of the profits generated by the wind turbines. This will be done in cooperation with an environmental advisory council that was set up especially for this project. Preparations for the project are now underway. In the spring of 2023, we will begin construction, and the turbines will begin rotating for the first time around the summer of 2023."

Loan from NWB Bank

For the execution of this project, NWB Bank provided a loan of €15 million. "We carefully considered the optimum balance between financing and costs," says Looman. "In the end, we came to NWB Bank and worked out the details together." Peter Borghstijn, project finance manager at NWB Bank, adds: "The bank's shares are held by public legal entities being the water authorities, the Dutch State and provinces. As an organisation rooted in societal causes, we want to be fully transparent. The establishment of a separate private company provides insight into the project's finances. As the sustainable water bank, this type of project fits well within our strategy." Looman concludes: "Installing wind turbines is not an easy process. We therefore consider it extremely important to stay in touch with the local community. In a few years' time, we will hopefully look back with satisfaction on how things went."

20% profit sharing for
local residents

NWB Fund

SUSTAINABLE WORLDWIDE WATER MANAGEMENT

Stock capital

€20.5 million

Available annually

€800,000,-

Our bank established the NWB Fund in 2006 to finance water authorities' international projects. And since 2018, many projects have been carried out through the Blue Deal, a collaboration between the water authorities and the Ministry of Foreign Affairs and the Ministry of Infrastructure and Water Management. The programme aims to provide sufficient, clean water in a water-safe environment to 20 million people worldwide. There are now Blue Deal projects on every continent.

In 2021, existing projects continued and new initiatives were launched, like the one in Ghana. The Fund also laid out a new plan to increase its added value.

Working together to combat water stress and climate change in Ghana

As a result of climate change, northern Ghana faces severe flooding and long periods of drought. That, combined with a growing population, poverty-related deforestation and agricultural practices, has led to the pollution and silting of rivers, dams and irrigation canals. The quantity and quality of water in this region are therefore at risk. One of the affected areas is the Bongo district. This is where the Vea Dam is located. This dam's water reservoir is used for agriculture by about 2,000 farmers, as well as for drinking water by the local community and their livestock. The siltation of this reservoir is endangering the water supply and severely limiting opportunities for irrigation.

With the help of Blue Deal Ghana, a collaboration has been set up between the Water Resources Commission Ghana, local governments and two non-governmental organisations (NGOs) with the aim of finding a much-needed solution. Reforestation and natural bank restoration both proved to be effective in combatting the problems. Together, those involved decided to plant more than 200,000 trees along the river upstream from the Vea Dam and to restore 50 hectares of buffer zones along the riverbank using deep-rooted grass.

From great plans to implementation

Jaap Bos, project manager: "Because the Blue Deal doesn't generate its own funds and everything holds up on paper, we started to look for ways to put the plans into practice and tackle the problems head-on. Arranging external funding acts as an incentive to get pilot projects off the ground." The Trees for All foundation is going to invest, and Tree Aid Ghana will handle the reforestation.

1,600 farmers will also be trained in proper land, forest and water management. The initiative will impact 20 local communities and all relevant governments eager to participate.

Sustainable solutions

Following on from this project, it became clear there was the potential to actively develop and share knowledge and expertise about sustainable solutions to water issues more broadly, allowing them to be applied more widely and in even more international contexts. The NWB Fund has therefore decided to sponsor a knowledge network: Focal Point Nature Based Solutions. As part of this effort, the NWB Fund is backing two pilots within Blue Deal Ghana:

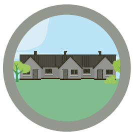
1. Investigating whether reforestation in arid regions of Africa can produce certifiable (and therefore marketable) CO_2 credits. This pilot builds on existing reforestation in the Bongo district.
2. Mangrove planting as part of integrated coastal management in the Lower Volta delta. Mangrove restoration will then serve as a vehicle for embedding water management in local communities, and it can also provide partial financing as an ecosystem-based service.

A new direction

Since the advent of the Blue Deal, it is important the NWB Fund maintains a clear role and focus, contributing constructively to a shared commitment to water-based initiatives, as well as the Sustainable Development Goals (SDGs). To this end, a new direction was laid out last year covering the period up to 2030. *"The fund is a driver for the Blue Deal and other projects"*, says Bert van Boggelen, director NWB Fund. *"We want to set a clear example for climate adaptation, as this is the most urgent challenge in the field of water management. One of the ways we want to do this is by training a 'flying brigade' of climate experts who can be deployed as advisers. They could, for example, perform a climate scan to identify opportunities for climate adaptation within a given project, and then help to make the most of them."*

The fund also wants to invest in better knowledge sharing, so successful insights and techniques are applied across multiple projects. Both abroad as well as in the Netherlands – because climate change also poses new challenges for the water authorities here, such as drought. We are not only here to deliver knowledge and experience – we too can learn from other countries.

More information about the NWB Fund can be found at www.nwbfonds.nl or by contacting the Fund's secretariat at rchedi@uvw.nl.



KEY PLAYER IN FINANCING THE DUTCH PUBLIC SECTOR

Our bank serves the broader Dutch public sector. At the time of its establishment, the water authorities explicitly also opened up our bank to other public and semi-public organisations. These include municipalities, healthcare institutions and housing associations, but also, for example, local sports clubs with a financial guarantee from their municipality. Over the years, we have become an essential financier in the public domain. We contribute to a discerning, diverse and innovative playing field in which public funds are handled efficiently and effectively. In the past 10 years, we have provided loans totalling almost €80 billion and, with a balance sheet total of close to €100 billion, we are the fifth-largest bank in the Dutch banking landscape.

Thanks in part to a record turnover of €12.1 billion, last year we were able to reinforce our significant market share in the financing of the Dutch public sector, ensuring the availability and affordability of financing for all our clients. By catering efficiently to our clients' financing needs and by virtue of our high creditworthiness and financial expertise, we can raise affordable financing with relatively long maturities on the international money and capital markets. Even during difficult times, such as during the credit crisis and at the beginning of the COVID-19 pandemic, we have repeatedly demonstrated that, as a promotional bank, we are always available to our clients.

Affordable and appropriate financing

We make sure that our loans are – and will remain – affordable. We do not aim to maximise our profit and always look for the most inexpensive way to fund ourselves, so that we can pass these savings on to our clients. That is also why we decided to use the ECB's TLTRO facility. The rates and conditions were so attractive, that it was in our clients' interest that we use this inexpensive funding and pass on the benefits to them through new lending. Another good example is the issuance of ESG bonds, which has become an indispensable and distinctive part of our business. The issuance of ESG bonds is more favourable than the issuance of traditional bonds, and that benefit is also passed on to our clients.

We believe it is important for financing to be not only available and affordable for our clients, but also appropriate. Therefore, we always tailor our products and services to our client's specific needs and knowledge. We do so in accordance with the nature of the sector, the investment profile and the vision of the relevant supervisory authority. Financial products are subject to an internal approval process before being offered to clients. This includes an assessment of the suitability of a product for a specific client group. This process plays a central role in our product responsibility and involves all of our bank's relevant departments. Products and services that have been approved are reviewed annually by the bank's Asset & Liability Committee (ALCO).

Before a loan is provided, each new client is subject to the Customer Due Diligence (CDD) policy, i.e. the client validation process. Existing clients are periodically reviewed, and the new credit management team within the Public Finance Department plays an important role. Partly stemming from the fraud incident that took place last year, we have tightened up these processes. Strengthening the lending chain is an important part of the primary work stream of the Lighthouse programme: 'Stable banking'.

Once clients have been validated and a loan has been taken out, we give them all the attention they need, regardless of size or volume of lending. For instance, we essentially always respond to requests for face-to-face meetings (digital if need be) and, if requested, are prepared at all times to consider bespoke arrangements. Requests for specific repayment schedules and early repayments are a good example of this. We are proactive in helping our clients find ways to optimise their loan portfolios. We have also granted maturity extensions in this context, with loans being replaced with longer-term loans at the prevailing low interest rate. In addition, in line with interest rate developments on the capital markets, we have again provided loans with negative interest rates, sometimes for terms of up to 10 years, whereby clients receive interest on their financing instead of paying it.

Sustainability plays an increasingly important role both when providing new loans and when assessing existing clients. Up to now, we have done this mainly on the basis of the criteria laid out in our sustainability policy. From 2022 onwards, we will assess all our lending on the basis of our climate action plan. In it, we have set CO_2 reduction targets at both client and sector levels, and we discuss these with our clients. Wherever appropriate, we remind clients of their own sustainability responsibilities. We also want to provide our clients with financial incentives to achieve sustainability targets through the introduction of sustainability-linked loans. The aim of all this is to ensure that CO_2 emissions across our loan portfolio are progressively reduced each year, ultimately reducing to net zero by 2050 at the latest.

Housing associations

The largest portion of our lending went to housing associations again last year. This is no surprise, as housing associations have the largest financing needs of all our Dutch public sector client groups. Last year, we provided €7.7 billion in financing to housing associations (2020: €5.7 billion). This production is related to the primary loan demand in combination with the revision of credit spreads on existing loans. The higher turnover has also partly to due to the fact that last year we granted so-called Social Housing Guarantee Fund (Waarborgfonds Sociale Woningbouw – WSW) obligo loans, and participated in the Vestia loan exchange.

In total, we had €30.6 billion in outstanding loans to housing associations at the end of 2021. At the end of 2020, our portfolio represented €30.4 billion out of a total of €81.3 billion in loans secured by the WSW in the Netherlands. By the end of 2020, we had successfully calculated the climate impact of 99.9% of our lending to housing associations, which amounted to 693 kilotons of CO_2 equivalent. This equates to an emission intensity of 22.8 tonnes of CO_2 equivalent per million euros.

All in all, housing associations manage approximately 2.3 million rental homes in which 4 million people live. These houses account for approximately 29% of the Dutch housing stock. Due to the scale of their housing stock, as well as the social role they fulfil, housing associations are expected to play a leading role in the field of sustainability. In 2012, as part of the Energy Agreement, the housing associations collectively agreed that by the end of 2021 housing associations would have an average energy label of B. According to figures published in a forecast by Aedes, the umbrella organisation representing all housing associations, the associations should have achieved this, barring a change to the system. In general, housing associations have been working hard to achieve the objectives of the Climate Agreement. For example, they are working to limit the heat demand for homes and to connect homes to sustainable energy sources. The starting point for making homes more sustainable is ensuring they remain affordable for both the housing associations as well as the tenants.

We only finance the portion of housing associations' debt that falls under the guarantee provided by the WSW. This concerns the financing of SGEI activities (Services of General Economic Interest). In this way, we can ensure all our lending to housing associations helps create added value for society. Housing associations provide good and affordable housing for people who need it. In many cases, these are households with modest incomes. This means housing associations pay special attention to people who are unable to find a place to live for social, medical or psychological reasons, as well as to 'status holders' (refugees granted residence permits). In addition, housing associations work expressly to create a healthy and safe living environment.

WSW obligo loan

All housing associations that are members of the WSW were required to have entered into a so-called obligo loan by 1 November 2021 at the latest. The obligo loan is a new part within the WSW's guarantee system. To prevent the WSW from receiving a claim on its own funds, the system has various buffers and safety nets in place. One such buffer is the mutual guarantee of the associations (the obligo), which the WSW can call upon if the risk capital of the WSW should prove insufficient. The obligo loan was created to ensure that the participating housing associations have sufficient liquidity in the event of a possible claim on their obligo. The obligo loan prevents the WSW from having to maintain large liquid buffers in order to meet capital requirements. Together with BNG Bank, we have provided these obligo loans to a total of 276 housing associations at market rates. The total amount of financing involved from our bank was €933 million.

Vestia

As a bank of and for the public sector, we take our social responsibility very seriously. That is why we helped Vestia, a housing association, in 2012 when it ran into problems stemming from liquidity requirements arising from a large portfolio of derivatives. At the time, we took over a portion of their derivatives portfolio and converted them into long-term fixed-rate loans, primarily to mitigate the liquidity impact of collateral claims made by derivative banks. This transaction took place at market interest rates current at the time.

Over the past few years, it has become clear that Vestia continued to struggle to fulfil its societal duty to provide social housing in the long term well. For this reason, the housing sector has considered a more structural solution whereby Vestia would eventually split into three separate housing associations. Part of this solution was a loan exchange with other housing associations, made possible by our bank. In November, 235 housing associations took out loans from our bank at current low market interest rates, then subsequently exchanged these for an existing, higher yielding loan from Vestia at NWB Bank. The bank did not incorporate any concessions into the loans as part of the loan exchange. This loan exchange structurally reduced Vestia's interest costs by €28 million per year. This was an operationally complex and challenging process which we successfully concluded together with Vestia, Aedes, the WSW, the Housing Authority, the Ministry of the Interior and Kingdom Relations and all the housing associations involved. An interview on the joint effort between our bank and Vestia is included in this report.

Apart from the exchange of loans, last year we also participated in the financing of the acquisition of homes from Vestia by other housing associations. The loan exchange and the takeover of houses both enable Vestia to continue fulfilling its social housing task, including making its assets more sustainable, now and in the long term.

Municipalities

In 2021, we provided municipalities with almost €1 billion in loans (2020: €1.1 billion) and granted €269 million to finance joint schemes (2020: €153 million). Local authorities are collaborating with each other in a growing number of areas, usually concerning 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.

At the end of 2021, we had a total of €5.272 billion in financing outstanding with municipalities. At the end of 2020, this amounted to €5.101 billion, the climate-based impact of which equalled 388 kilotons of CO_2 equivalent. This is an emission intensity of 58.3 tons of CO_2 equivalent per million euros.

Healthcare

As a key player in the financing of the Dutch public sector, we also finance healthcare institutions. We provide loans secured by the Healthcare Sector Guarantee Fund (WFZ) and loans to university hospitals. Guarantees by WFZ contribute to affordable and accessible healthcare. The total volume of outstanding loans guaranteed by the WFZ has been decreasing for several years and, consequently, so has our loan portfolio. In contrast, our lending to university hospitals is increasing. In total, we granted €541 million to healthcare institutions last year (2020: €131 million).

Our healthcare loan portfolio totalled €1.8 billion at the end of 2021. In late 2020, we had just under €1.9 billion in financing outstanding in this sector. We were able to calculate the climate impact of 75% of this total, which amounted to 74 kilotons of CO_2 equivalent. This represents an emission intensity of 52.5 tonnes of CO_2 equivalent per million euros.

Government-backed loans

Foundations, associations and other legal entities that avail of a financial guarantee from a municipality or other (local) government can also apply to the bank for financing. In addition to large players, we regularly deal with clients with relatively limited financing requirements. Think, for example, of amateur sports clubs or schools that want to make their facilities more sustainable and/or renovate them. We consider the financing of these clients part of our social obligation, even though it is not always cost-efficient to provide these kinds of relatively small loans. In 2021, we provided government-backed financing totalling €158 million (2020: €258 million).

Public-Private Partnerships

Despite a significant decline in the market for financing Public-Private Partnership (PPP) projects, we still managed to do one transaction last year. Together with the European Investment Bank (EIB), we secured the refinancing of the A6 motorway expansion project, the first energy-neutral national highway in the Netherlands which opened in July 2019.

NHG RMBS

As a promotional bank, we also contribute indirectly to financing private residential mortgages and ensuring they remain affordable. We do this by investing in 'pass-through NHG RMBS bonds' (Residential Mortgage-Backed Securities, based on mortgages with a National Mortgage Guarantee).

Over the past year, we successfully closed a first investment in such RMBS, which was launched in 2020. We have since entered into a second, meaning a total of €625 million was invested in 2021. The mortgages involved in these investments have longer maturities and therefore meet the need that exists within the market. In addition, there is a favourable rate for the portion of the mortgage used to make a home more sustainable. At year-end, our portfolio amounted to approximately €1.329 billion (2020: €950 million). In the coming years, we aim to continue contributing in this way to the affordability of owner-occupied homes, especially for first-time buyers and those with lower incomes.

KEY PLAYER IN THE FINANCING OF THE DUTCH PUBLIC SECTOR

Richard Feenstra
CFO of Vestia

Frenk van der Vliet
CCO of NWB Bank

Transaction
Loan exchange with 230 housing associations for 60,000 homes

Loan exchange
€650 million

Reduction in interest charges
€28 million

Structural solution for Vestia

AN UNPRECEDENTED OPERATION LARGE AND UNIQUE LOAN EXCHANGE

Vestia ran into serious financial problems in 2012 due to an oversized and risky derivatives portfolio. Other housing associations had to step in to keep the largest housing association in the Netherlands afloat. Since then, Vestia has partially reduced its assets, partly through the sale of assets to fellow housing associations, which means the organisation has been cut in half. In 2021, work continued on a structural solution, so Vestia could continue to meet its public housing commitments in the long term. An unprecedented move followed. NWB Bank has proved the financial linchpin in this process. An interview with Richard Feenstra, CFO of Vestia.

"After ten years of firm restructuring, we reached the conclusion that we were still underperforming in terms of social housing. This meant that, in the long term, there was no money for additional new construction, quality maintenance, sustainability efforts or attention paid to quality of life and the vulnerable neighbourhoods in our portfolio. This was a major problem because we work in the Rotterdam and Haaglanden regions, both areas with housing shortages and vulnerable neighbourhoods. So we had to solve these problems structurally," Feenstra says. "The plan consisted of three parts: the loan exchange, the additional sale of part of the assets and the split of Vestia into three new housing associations."

Loan exchange

"The loan exchange was a really smart move," says Feenstra. "To ensure that our interest costs were reduced, we asked fellow associations to exchange loans with us. Vestia had outstanding loans with a high interest rate, some of which ran until 2060, and they were exchanged for new loans taken out at the current, lower interest rate. As a result, the annual interest burden for Vestia decreased by €28 million per year – which is a huge amount. The burden will be spread over several years and divided among fellow associations. This whole process required enormous preparation and a unique and voluntary collaboration between 251 of the 285 housing associations in the Netherlands. Of the 251 associations, 230 participated in the loan exchange. The other housing associations contributed by taking over homes from us or contributing cash. This kind of collaboration had never really happened before in Dutch social housing. It was a truly unique demonstration of exceptional solidarity in the sector."

Unique operation

All of Vestia's existing loans that were to be exchanged went via NWB Bank, so the bank played a crucial role. This meant that these loans had to be split into 230 smaller loans, and then exchanged for 230 other loans. What made this especially challenging was that, in the context of economic requirements and legal documentation, everything had to take place on the same day. "On an annual basis, NWB Bank normally grants around 750 long-term loans," says Frenk van der Vliet, chief commercial officer at the bank.

"So the scale was unprecedented with all these transactions in one day. This meant that 230 housing association directors – and also all the municipalities involved – had to sign. After months of intensive preparation between all parties, the loan exchange was finalised at the end of November and executed on 21 December 2021, just before Christmas. In total, hundreds of loans and associated hedges were passed on that single day." As Feenstra puts it: "It was an unprecedented operation involving a unique and extensive loan exchange, which represents a major achievement by all those involved at Vestia, the housing associations, Aedes, the WSW, the Authority for Housing, the Ministry of the Interior & Kingdom Relations and NWB Bank. This is especially true if you also take into account that, more or less simultaneously, another, unrelated major operation took place within the housing association sector. To strengthen the guarantee system within the sector, all associations had to take out a WSW Obligo Loan, of which NWB Bank was responsible for half. In short, these were busy times for the bank."

Vestia splits into three associations

"Now that the exchange of loans has been successfully completed, the next step in the structural solution is to split Vestia into three new housing associations in Rotterdam, The Hague and Delft/Zoetermeer. Vestia's nearly 60,000 homes will be divided among these new associations, each with a new name and board. Each new association will then have sufficient financial resources to build new homes, carry out maintenance, invest in sustainability and enhance the quality of life in more vulnerable neighbourhoods," says Feenstra. "Because such a division also requires a lot of time and effort, we expect this to happen in early 2023. At that time, NWB Bank will once again play an important role in this process."

Exceptional solidarity
in the housing sector

KEY PLAYER IN THE FINANCING OF THE DUTCH PUBLIC SECTOR

Dimitri Griffioen
Financial Director of LUMC

Aard Kluck
Account Manager Public Finance at NWB Bank

Transaction
€150 million loan

Key figures LUMC (2020)
8,800 employees
21,579 patients
2,728 scientific publications
9 medical courses
3,394 students

Sustainability efforts and a future-proof upgrade

SUSTAINABLE VISION OF THE FUTURE LUMC-CAMPUS

"The history of LUMC goes back to 1575," says Dimitri Griffioen, financial director of Leiden University Medical Center (LUMC) at the start of the conversation. "The hospital originated in what was then the 'Caeciliagasthuis' in Leiden, now the Boerhaave Museum. In 1986, we moved to our newly built campus next to Leiden Central Station, which covers over 206,000 square metres. We are now in the process of making this building future-proof, and at the same time making it considerably more sustainable. This is a capital-intensive process that we cannot finance from our own resources alone. That is why we are working with NWB Bank."

"At LUMC, we are innovators who stand for the improvement of healthcare and human health," says Griffioen. "We achieve this by providing optimal and innovative care for our patients on the basis of leading research and innovative education. We want to be among the top-10 best university medical centres in Europe that are directly linked to a research-intensive university. In the spirit of innovation, we have also taken a careful look at our own facilities. This led to our decision to carry out a substantial renovation that will also help to future-proof the LUMC campus. We are really killing two birds with one stone when it comes to housing – but the project involves considerable investments."

Three social aims

"Over the coming years, LUMC wants to focus on three social aims: oncology, regenerative medicine and population health. After all, we are at the forefront of research into the treatment of various forms of cancer. In the coming years, LUMC will focus on strengthening its expertise in lung cancer, and on the treatment and further development of individualised oncological immunotherapies. LUMC is also an international leader in regenerative medicine for transplants in patients with type 1 diabetes, and we are working on an advanced cell therapy to cure diabetes and other chronic diseases. Across our various research initiatives, we collaborate with universities in Denmark and Australia, as well as with pharmaceutical multinationals. We are also leaders in studying the transition from good health to disease, and are researching how the risk of disease can be reduced. In the process, we also develop and test interventions that can promote health. To carry out these ambitious projects, we invariably require facilities that suit our purposes," says Griffioen. "Among colleagues, I often refer to it as a mid-life upgrade for our building."

A future-proof building

"The new facilities plan includes new operating rooms, a complete renovation of the Cardiology Department, a newly equipped Emergency Department, and a significant renovation and expansion of our research and education facilities," says Griffioen. "At the same time, LUMC wants to become energy neutral by 2030. To this end, we have signed the Green Deal for Sustainable Care and decided to largely switch from gas to electricity. Instead of using fossil fuels, heat and steam, we will switch to green energy. This will reduce our carbon footprint, which now includes almost 52,000 tons of CO_2 emissions per year, by almost 20%." As Aard Kluck, account manager Public Finance at NWB Bank, puts it: "This aligns with our goal of further reducing CO_2 emissions across our lending."

Flexible loan

"We can cover part of the needed investment using our strong cash position and cash flows, but that is not enough. That is why we sought external financing and ended up at NWB Bank. What struck me was the bank's level of commitment and flexibility. Not only did we secure the best terms for our loan with the lowest impact on society, but we also obtained flexible conditions that suit our financing needs perfectly. We are now lending a total of €150 million in multiple tranches, which will ultimately come out at €230 million in 2025. The Healthcare Sector Guarantee Fund (WFZ) is acting as guarantor for part of these loans, which also means lower interest rates for that portion of the capital. The bank's level of knowledge and cooperation throughout the process was exemplary, and the actual process of carrying out the transaction was seamless. As a result of this support, LUMC can continue to innovate for years to come," concludes Griffioen. "We are also proving LUMC's commitment to a sustainable future. Employees, patients and students alike – indeed, our entire community as a whole – are already benefiting from this process."

Approximately 20% CO_2 savings

Lowest social costs

FINANCING PARTNER FOR ENHANCING SUSTAINABILITY IN THE NETHERLANDS

The coming decades will require major investments to enhance sustainability in the Netherlands. And we see ourselves playing an important role in this process. Not only by ing loans to our long-standing clients – such as water authorities and housing associations – but also by expressly providing favourable financing for sustainable energy projects. This is how we can make an important contribution to an affordable energy transition in the Netherlands and take concrete steps to help shape our commitment to the Climate Agreement.

For us, sustainability covers more than just the climate. In addition to contributing to climate mitigation and adaptation, we are also looking at how we can further prevent biodiversity loss and finance biodiversity restoration. Biodiversity includes all species of plants, animals and micro-organisms, as well as the enormous genetic variation within those species and the variety of ecosystems in which they play a role. There is a steep decline occurring in the natural world at an unprecedented rate, and species are increasingly at risk of extinction. This comes with adverse consequences for humans around the world too.

Climate mitigation

Climate mitigation refers to measures designed to limit the extent or speed of global warming. Generally speaking, climate mitigation means reducing man-made greenhouse gas emissions. The generation of renewable energy is a good example of this. Since 2019, our bank has been a player in the market for financing 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 suits our bank perfectly.

Renewable energy

Last year, we provided financing for renewable energy projects totalling €203 million (2020: €596 million). Among other projects, we supplied financing for the Hanze Wind Farm, which is part of the Wind Plan Groen umbrella, under which approximately 10 wind farms in eastern Flevoland are currently being developed. As a result of refinancing, we also acquired a stake in Windpark Krammer, a wind farm in the Krammersluizen in Zeeland. There, 34 wind turbines generate more than 100MW of energy. By financing renewable energy projects like wind farms, we can ensure that the use of fossil energy and the emission of greenhouse gases progressively decrease. These 'avoided emissions' are also tracked according to the PCAF-methodology. We should note, however, that many of the wind farms we finance are not yet operational. At the end of 2020, 15% of the financing we provided for wind farms could be included in our avoided emissions calculation. The outcome of that calculation was that our loan portfolio was responsible for 13,622 tonnes of avoided CO_2 emissions. That corresponds to an emission intensity of 410 tonnes of CO_2 equivalent per million euros.

Projects and organisations that are eligible for a subsidy – 'Stimulating Sustainable Energy Production and Climate Transition (SDE++)' – can come to us for financing. The SDE++ is the successor to the SDE+. Where the latter focused on the production of renewable energy, the SDE++ has focused on CO_2 reduction since its introduction in 2020. In the time since, technologies such as aquathermal energy have become eligible under the subsidy scheme.

Aquathermal energy

Aquathermal energy 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 up to 40% of the heat demand in urban areas and that 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 the necessary energy transition.

In 2019, we signed the Aquathermal Energy Green Deal. We are collaborating with parties from the government, water management, research and industry to explore possibilities for heating and cooling buildings with aquathermal energy, and we are ensuring all stakeholders are aware of its potential. We 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. Within the Green Deal, we are giving serious thought to ways of financing aquathermal projects. We are doing this together with Invest-NL among others, and we are keen to accelerate this process.

Climate adaptation

It is important that the Netherlands prepares itself for the changing climate. The flooding in Limburg this past year made this all too clear – and painfully so. Adapting the environment and preparing for the consequences of the changing climate is called climate adaptation.

We finance climate adaptation for the vast majority of our core clients. The water authorities are a good example of this, working to fortify and enlarge the dykes to counteract the effects of flooding. Housing associations are also fully committed to climate adaptation. Climate change affects the way we design our cities and build our houses. What climate adaptation means for housing associations depends on the situation. Examples include the smart construction of (interior) gardens so they are not immediately flooded after a heavy rainfall, and limiting the overheating of surrounding buildings.

One specific climate adaptation project we funded last year is the widening of the A6 highway. Opened in July 2019, the A6 is the first energy-neutral national highway in the Netherlands. A large solar park sustainably generates all the energy used along the highway. We undertook the refinancing of this Public-Private Partnership together with the European Investment Bank (EIB).

Biodiversity

There is a growing awareness in the financial sector that, just as with climate change, swift action is needed to counteract biodiversity loss. The issues of biodiversity and climate change are interrelated – with deforestation being a prime example. If we do not act quickly, up to 1 million species could go extinct. Many sectors within our economy depend on the variety of plants, animals and insects around the world. This is why it is crucial that we fully invest in the preservation and restoration of biodiversity for future generations.

In the Netherlands, agriculture plays a crucial role in the process of conserving and restoring biodiversity. Last year, together with Rabobank, we financed the Climate Fund for Agriculture, which is managed by the National Green Fund. The Climate Fund for Agriculture is the first fund aimed at financing projects that contribute to realising the aims of the Ministry of Agriculture, Nature and Food Quality (LNV) under the Climate Agreement. The focus is on projects aimed at making agriculture more sustainable and preserving biodiversity.

Biodiversity working group

To address the importance of biodiversity more broadly within the financial sector, we have been asked to sponsor a biodiversity working group under the the Dutch Central Bank’s Sustainable Finance Platform. This working group was established in 2019 and consists of insurers, asset managers, pension funds as well as other banks. It is led by our CEO Lidwin van Velden together with our sustainability officer. Incidentally, we also contributes to making the Dutch financial sector more sustainable through our participation in the Circular Economy Working Group of the Dutch Central Bank's Sustainable Finance Platform.

Last year, the working group developed a step-by-step guide to help financial institutions combat the loss of biodiversity. The guide offers tools for institutions for whom the issue is new, but also for institutions that have already taken their first steps. Institutions are given guidance on formulating policy and objectives, identifying risks, making an impact and reporting best practices. The step-by-step plan provides insight into the various biodiversity reports available, and helps institutions engage their clients in dialogue about biodiversity. For each step, examples are given of how other financial institutions are already implementing this in practice.

Finance for Biodiversity Pledge

As *the* sustainable water bank and sponsor of the Biodiversity Working Group under the Dutch Central Bank's Sustainable Finance Platform, we naturally want to set a good example. That is why, following from our chairmanship of the Biodiversity Working Group, we joined over 80 other financial institutions in signing the Finance for Biodiversity Pledge. Our bank promises to calculate our biodiversity footprint by 2024, set targets based on this impact and report on them publicly. We have also joined the Delta Plan for Biodiversity Recovery to contribute specifically to the recovery of biodiversity in the Netherlands.

Partnership for Biodiversity Accounting Financials

Last year, we joined the Partnership for Biodiversity Accounting Financials (PBAF). Partly as a result of this, we took part in a pilot carried out by the Netherlands Enterprise Agency (RVO) to calculate the biodiversity footprint of one of our clients. We chose Waternet, a water company owned by and for the municipality of Amsterdam as well as the Water Authority Amstel, Gooi and Vecht , which is responsible for the drinking water supply, sewage collection, sewage treatment and the management of the region's water system. Water quality and biodiversity are under pressure, so Waternet also wanted to gain insight into its own footprint. Thanks to this pilot, we gained insight into how the 'biodiversity impact assessment method' works, and what data are needed for an accurate estimate of a biodiversity footprint. The results of the calculation can be used to determine the main causes of biodiversity loss, and which business units, processes and emissions contribute to it.

PARTNER IN FINANCING SUSTAINABILITY IN THE NETHERLANDS

Gerrit de Regt
Agricultural entrepreneur in Dronten

Leonieke Blaauwgeers
Project Finance Manager at NWB Bank

Transaction
€120 million loan
Duration: 15 years

Key figures Hanze Wind Farm
15 wind turbines
90 megawatt installed capacity

26 farming families and a water authority borrow €120 million

THE ENTREPRENEURIAL SPIRIT OF AN AGRICULTURAL ENTREPRENEUR

Renewable energy has boomed in the Netherlands, and wind energy is particularly important in this respect. Across the country, 11 areas have been designated as large wind farms, including Windplan Groen in Flevoland. This plan involves 90 wind turbines with approximately 500 MW of installed capacity, together generating approximately 1.9 billion kWh per year. That is the same amount of electricity as is used annually in the province of Flevoland. Part of Windplan Groen is Windpark Hanze, a private initiative launched by agricultural entrepreneur Gerrit de Regt.

"My great-grandparents started farming here decades ago, so I'm the third generation. A lot has changed in that time."

Entrepreneurial spirit

"At our farm, the 'Eems-hoeve' in Dronten, we grow organic vegetables for both the fresh market and larger industry," says De Regt. "As organic farmers, we are not allowed to use any pesticides or artificial fertiliser, so cultivation demands a responsible approach that combines a choice of varieties, fertilisation and soil maintenance. In 2000, I became involved in the wind turbine initiative and also became a board member of Windplan Groen. Together with 26 farming families, we took the plunge and made our land available for the development of a wind farm. That's where my entrepreneurial spirit really came in handy. We enthusiastically set out to develop the Hanze Wind Farm."

Complex and spirited process

"Together with the 26 other farming families, we established a cooperative supported by the SDE++ subsidy," adds De Regt. "With the Stimulation of Sustainable Energy Production and Climate Transition, you can jointly invest as an energy cooperative in a production installation to generate sustainable energy. As an energy cooperative, we receive a 15-year subsidy for each kWh produced. The wind farm is located around the corner from wind-rich Dronten and has 15 wind turbines with a total installed capacity of 90 megawatts. The wind farm will be put into full commercial operation in 2023. But the project has brought with it its share of challenges. As an agricultural entrepreneur, you have to deal with a multitude of complex issues: legislation and regulations, permit applications, managing and coordinating sometimes conflicting interests and financing. You could say that I have learned a lot," laughs De Regt. "All the details have to be top-notch, of course. It was and is a tough process."

Win-win

"For the financing, we joined forces with Waterschap Zuiderzeeland and arranged a tender," says De Regt. "Together, NWB Bank and Rabobank offered the best conditions. A full due diligence process was part of that process, meaning every risk, no matter how small, was taken into consideration."

Leonieke Blaauwgeers, project finance manager at NWB Bank, says: "Our knowledge came in handy, of course, and we were able to make a considerable contribution to the project. We were able to lend the 26 farming families and the water authority a total of €120 million, with a term of 15 years. The financing comes entirely from NWB Bank, but Rabobank takes on half of the credit risk through a guarantee. The Zuiderzeeland Water Authority provided 11% of the equity for Wind Farm Hanze, and this portion is equal to the share of the electricity they will purchase directly from two of the wind farm's turbines. In other words, it is a win-win situation!"

Direct and indirect stakeholders

"As director of a new wind farm, you're merely busy talking to each and everyone. The interests of all stakeholders need to be taken into account. There were lots of conversations over the breakfast table, much different from the daily work in my own company.
For the 13 remaining wind turbines in our park, we were able to strike a deal with energy company Vattenfall and Cargill, a global trader in agricultural commodities. Vattenfall will purchase 78 megawatts of output from the wind farm, and Cargill will purchase 2.9 terawatt hours from Vattenfall. In practical terms, this means that we will be supplying energy to Vattenfall. More than 90% of Cargill's electricity consumption in the Netherlands can be supplied from renewable sources. As farmers, we are therefore helping to make the trade in agricultural raw materials energy-neutral. We have come full circle, so to speak – which is a beautiful thing. We are securing the future of our businesses for the generations to come."
As De Regt concludes: "I've already climbed up a wind turbine in the area with my children. And we've got plans to have their entire class come by to have a look."

"There was a lot of talking"

SUSTAINABLE, EFFICIENT AND SOCIALLY ENGAGED ORGANISATION

We can only fulfil our role in financing the Dutch public sector if we are well equipped to do so as an organisation. This is the foundation of our strategy. We are one of the most cost-efficient and best-capitalised banks (on a risk-weighted basis) supervised by the ECB. Our employees are motivated and qualified to make their individual contributions to the public cause. We also lead by example in terms of sustainability and social engagement.

One key strength of our organisation is its compact and flat structure. Despite the fact that our workforce grew last year (90 employees at the end of 2021 compared to 80 at the end of 2020), we have maintained our flat organisational structure and open culture as much as possible. The growth in staff numbers last year, as well as the growth expected in the coming years, is a direct result of our ambitions in the area of sustainability, the further diversification of our lending activities and ongoing investment in becoming a more professional and decisive organisation.

Safe, stable and efficient bank

In 2021, we were again in the top-10 of the world's safest banks, ranked fifth to be precise. Our bank's stability is more specifically reflected in our capital and liquidity ratios, and in our credit and ESG-ratings. And despite considerable investment in knowledge, personnel and systems, we still manage to keep our costs under control, as evidenced by our low cost/income ratio.

Capital ratios

Our bank's Tier 1 equity capital, including hybrid capital, amounted to €2.083 billion at the end of 2021 (including earnings from 2021) compared to €2.049 billion at the end of 2020. The level of risk-weighted assets reached €4.641 billion compared to €3.833 billion at the end of 2020. On the one hand, this increase is a direct result of the chosen strategy of the sustainable water bank. This is because the increased lending to for instance renewable energy projects, drinking water companies and regional network operators contributed to an increase in risk-weighted assets. On the other hand, the past year was mainly affected by heavier capital requirements for the derivatives positions exclusively related to the strict hedging policy that the bank applies. Partly as a result of the increase in risk-weighted assets, the Tier 1 ratio decreased from 53.5% at the end of 2020 to 44.9% at the end of 2021. The Tier 1 core capital ratio (CET 1 ratio) decreased from 45.1% at the end of 2020 to 38.0% at the end of 2021.

Capital requirement

The capital ratios are well above the minimum requirement of a CET 1 ratio of 12.50%. Based on its annual Supervisory Review and Evaluation Process (SREP), the ECB has set the bank-specific Pillar 2 capital requirement at 2.00%. This is an improvement over the 2020 SREP outcome of 2.25% because the ECB believes that our bank's business model throughout the COVID-19 pandemic was robust. The total SREP capital requirement for our bank is now 10.00%. This is an aggregate of the total Pillar 1 capital requirement of 8.00%, and the Pillar 2 capital requirement of 2.00%. Together with the required capital conservation buffer of 2.50%, this brings the total capital requirement for our bank to 12.50%.

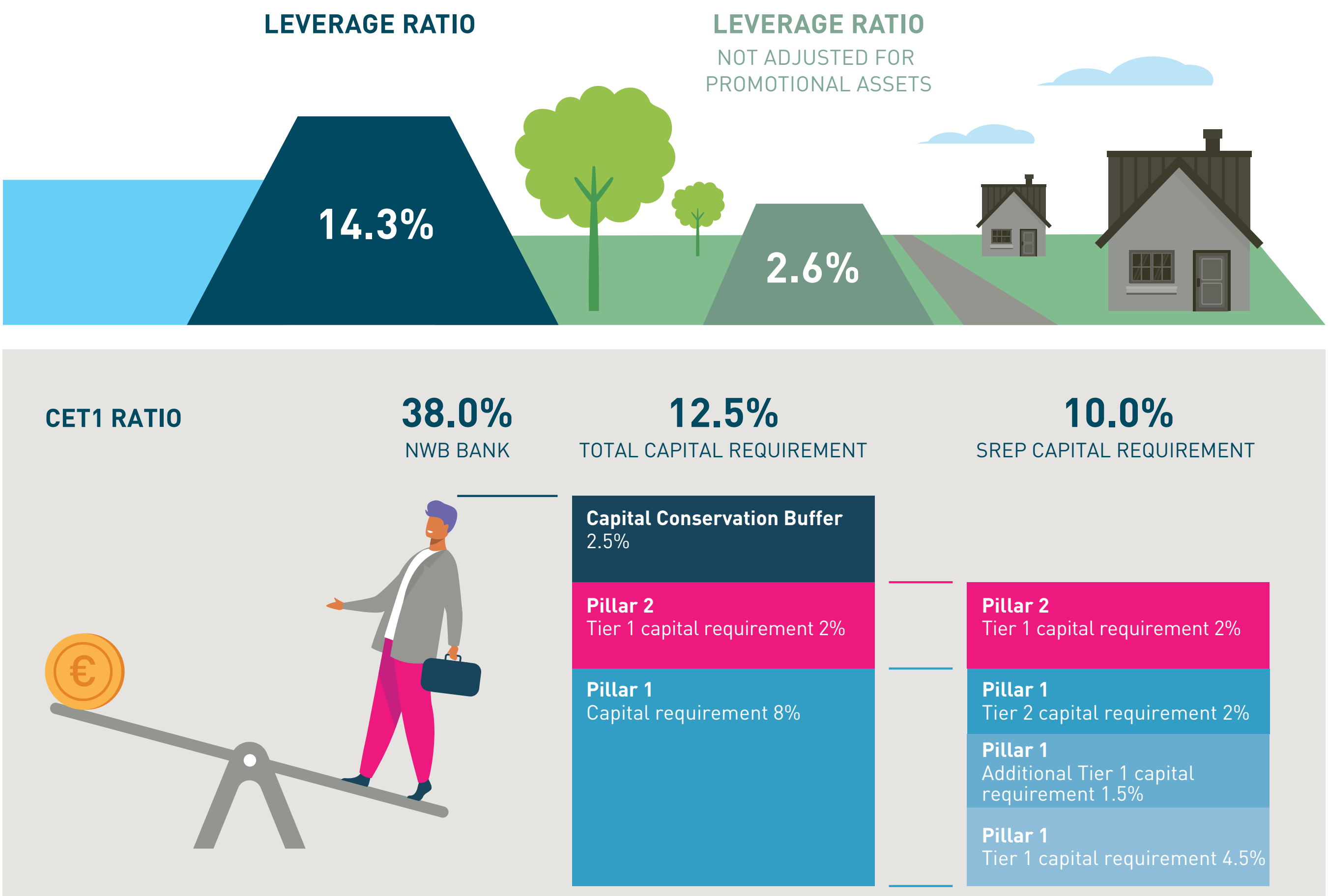
Stress test

Even in a scenario of extreme stress, we still comfortably meet this minimum CET 1 requirement of 12.50%. This was demonstrated through the European Banking Authority's (EBA) stress test, which we participated in last year. The EU-wide stress test was designed to assess the resilience of European banks against extremely adverse market developments over a three-year period. For our bank, the stress test led to a CET 1 ratio of 45.7% at the end of 2023 under the baseline scenario, and to 37.8% under the adverse scenario. The ECB also used these results as input for the SREP.

Leverage ratio

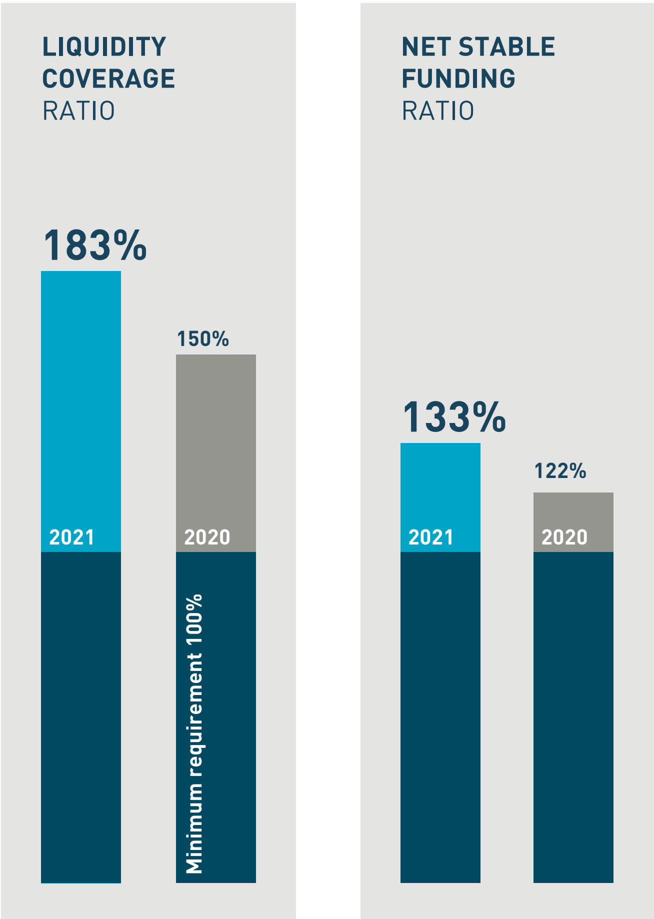
The leverage ratio, unlike the Tier 1 and CET 1 ratios, is a risk-unweighted ratio, and it is derived from the capital requirements under Basel III. This means that its calculation does not take into account the risk profile (expressed as a risk weighting) of a bank's assets.

The leverage ratio is defined in the European Capital Regulation CRR II, which entered into force on 27 June 2019. It has been enforced since 28 June of last year. Under CRR II, we, like other promotional banks, are permitted to exclude our public sector lending from the calculation of the leverage ratio. In addition, as part of temporary measures taken by the ECB in light of the COVID-19 pandemic, banks may exclude their balances with the central bank from the calculation of the leverage ratio. As of 31 December, our leverage ratio was 14.3%. This is higher than the 13.2% ratio published at the end of 2020, and well above the 3% minimum requirement in force since 28 June 2021.



Liquidity ratios

The purpose of the Liquidity Coverage Ratio (LCR) is to ensure that institutions hold sufficient liquid assets to withstand any net liquidity outflow under severe stress conditions over a 30-day period. Our bank's LCR at the end of 2021 stood at 183% (2020: 150%), which is well above the statutory minimum of 100%.



When the CRR II/CRD V entered into force on 27 June 2019, the Net Stable Funding Ratio (NSFR) was also introduced. For our bank, this NSFR amounted to 133% at the end of 2021 (2020: 122%). This is also well above the minimum requirement of 100% that has been in place since 28 June 2021. The NSFR is also a liquidity ratio and relates to the availability of liquid assets in the longer term. The internal liquidity requirements are determined in part through the Internal Liquidity Adequacy Assessment Process (ILAAP). Once again, these were comfortably met last year.

Credit ratings

Retaining our bank's high-quality risk profile, as reflected in our credit ratings, is a priority of our long-term strategy. To be able to optimally serve our clients, our credit ratings must be (and remain) in line with those of the State of the Netherlands. For years, we have enjoyed the highest possible credit ratings from Standard & Poor's and Moody's: AAA/Aaa.

ESG-ratings

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

Costs and organisational development

Operating costs in 2021 were €35 million, compared to €30 million in 2020.[1] Due to the COVID-19 pandemic, we also incurred additional costs last year to ensure the continuity of services and the health of employees. For example, we rented additional office space so employees could work on the bank's vital processes spread out across two locations. Other employees have largely worked from home over the past year. During the summer months, we were able to temporarily relax most of the measures and partially reopen the office. At that time, we also introduced a new hybrid working arrangement allowing staff to work independent of place and time whenever possible. Unfortunately, the reappearance of spikes in the pandemic and resulting restrictions and government regulations meant many colleagues had to work from home full time again from November onwards.

1) Adjusted for the fraud incident detected in 2021, which was recorded as an operating loss of €12 million in the 2020 financial statements.

Staff

Personnel costs are a significant portion of the total costs. These increased from €12 million in 2020 to €13 million in 2021. One indicator of our management of personnel costs is the remuneration ratio between the chair of our Managing Board and the median of all our other employees. This came to 3.9 for 2021 (2020: 4.1). The increase in absolute personnel costs is due to the fact that our organisation continued to grow in 2021. At the end of 2020, our workforce consisted of 80 employees; at the end of 2021, there were 90 of us. The most notable change in this regard is the expansion of the Public Finance department, in which a completely new credit management team was set up. The organisation is also expected to continue to grow in the coming years. This was reflected in our strategic personnel planning last year.

Diversity and inclusion

When recruiting new employees, we are open to everyone regardless of gender, age, religious beliefs, cultural background, disability or sexual orientation. Across our organisation, we strive for a good mix of talent, development potential and expertise among our employees, and consciously hire professionals who contribute to this diversity. The importance of diversity and inclusion is provided for in various laws and regulations, including the Non-Financial Reporting Directive (NFRD). Although we do not officially fall within the scope of this European directive, we want to comply with it, partly at the request of the Ministry of Finance, one of our shareholders. Furthermore, we are one of the banks participating in the Collective Labour Agreement (CLA) for the Dutch banking industry – the first CLA to include a diversity charter. This CLA applies in full to the bank's employees. Partly in response to changes in relevant laws and regulations, we also updated our Diversity and Inclusion policy last year.

Lighthouse change programme

To ensure our organisation is future-proof, we need exceptionally motivated and capable people working for NWB Bank. In 2020, we identified four priorities for strengthening our internal organisation: 1) digitalisation, 2) change management, 3) effective governance and 4) internal communication. Over the past year, we have translated these priorities into concrete change initiatives within a bank-wide change programme that we call the 'Lighthouse'. The programme consists of three workstreams: 'Stable banking', in which the sustainable strengthening of the lending chain's foundation is key; 'Bank of the future', in which the continued digitalisation of our processes and services is addressed; and a third workstream called 'Winning work environment; great place to work'. This workstream revolves around the collective effort, culture, internal communication and risk awareness within our organisation. We use the multi-year, goal-oriented Lighthouse programme to create an overview, make connections between the various activities and projects that play a role in our bank, and integrate ESG-initiatives into our business operations and activities, involving all employees in the process. We invest heavily in the continued strengthening of our organisation so we can work even more effectively in the future, offer our clients even better experiences and outcomes, and continue to comply with all legislation and regulatory requirements.

Laws, regulations and supervision

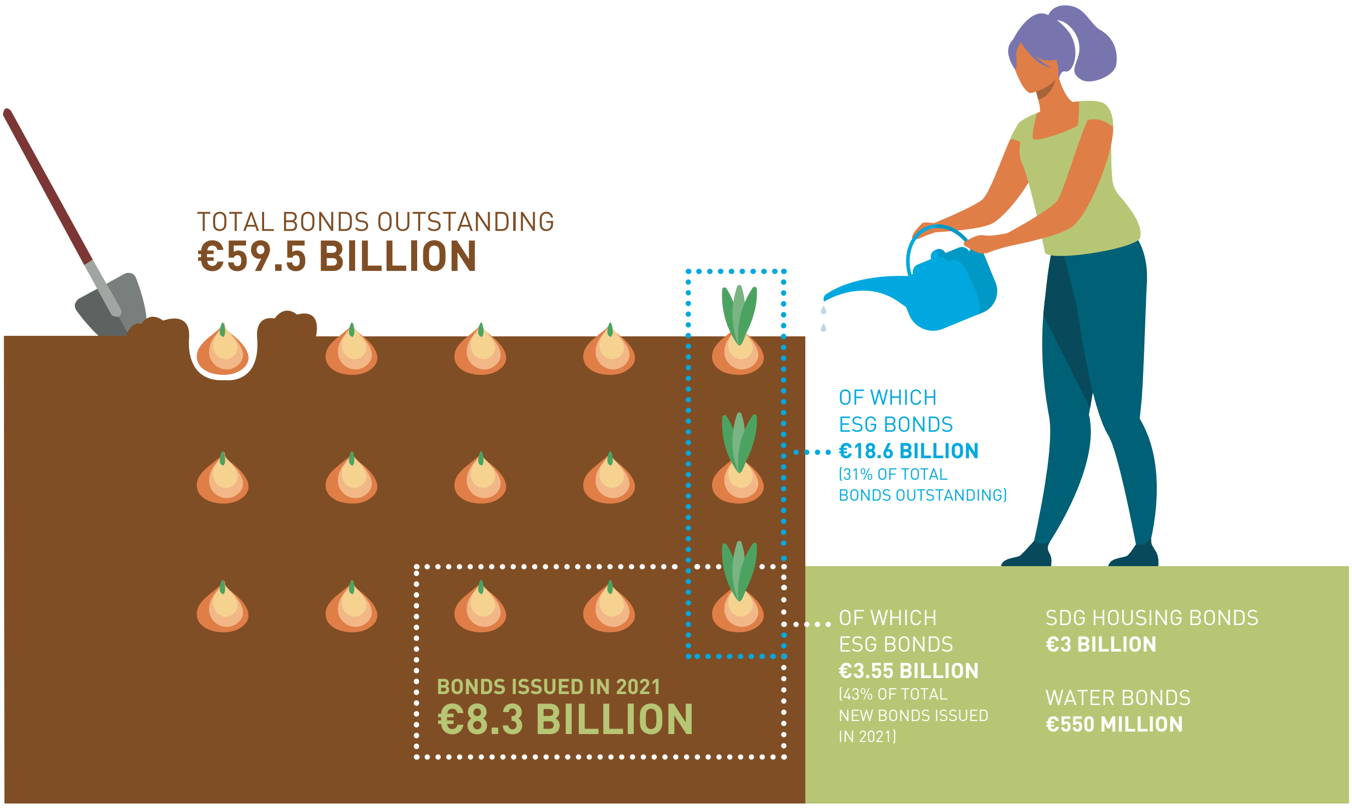
Laws and regulations are increasing in both volume and complexity. Examples include capital requirements and directives, the EU taxonomy and the various guidelines issued by the European Banking Authority (EBA). The intricacy of supervision itself is also increasing. Stemming from this, supervisory costs rose again last year: €3.9 million versus €3.6 million in 2020.

Tax burden

The tax burden for 2021 amounted to €72.1 million, and the effective tax rate came to 37.2%. In addition to the bank tax, a minimum capital rule for banks and insurers is applicable in the Netherlands since 2020. This minimum capital rule, which is also referred to as the 'thin cap rule', limits the deduction of interest for corporate income tax purposes to the extent that a bank's leverage ratio is lower than 9% (2020: 8%). Even though we, as a promotional bank, have been able to report a leverage ratio of over 9% since the CRR II came into effect, this was not yet reflected in the minimum capital rule due to a two-year transition period (2020-2021) included in the CRR II.

Attracting funding through ESG bonds

The vast majority of our funding from the international money and capital markets is raised through the issuance of bonds and Commercial Paper. As a sustainable bank for the public sector, issuing ESG bonds has become an indispensable part of our business operations. In addition to traditional investment considerations, such as investment safety and risk-adjusted returns, these bonds are purchased by investors because of their interest in supporting climate-friendly and societal orientated projects within their investment mandates. By issuing these specific bonds, we continue to attract new investors and increase the market reach for ESG bonds. The issuance of these bonds underscores our role as a robust and sustainable financial partner for the Dutch public sector.



Capital market financing

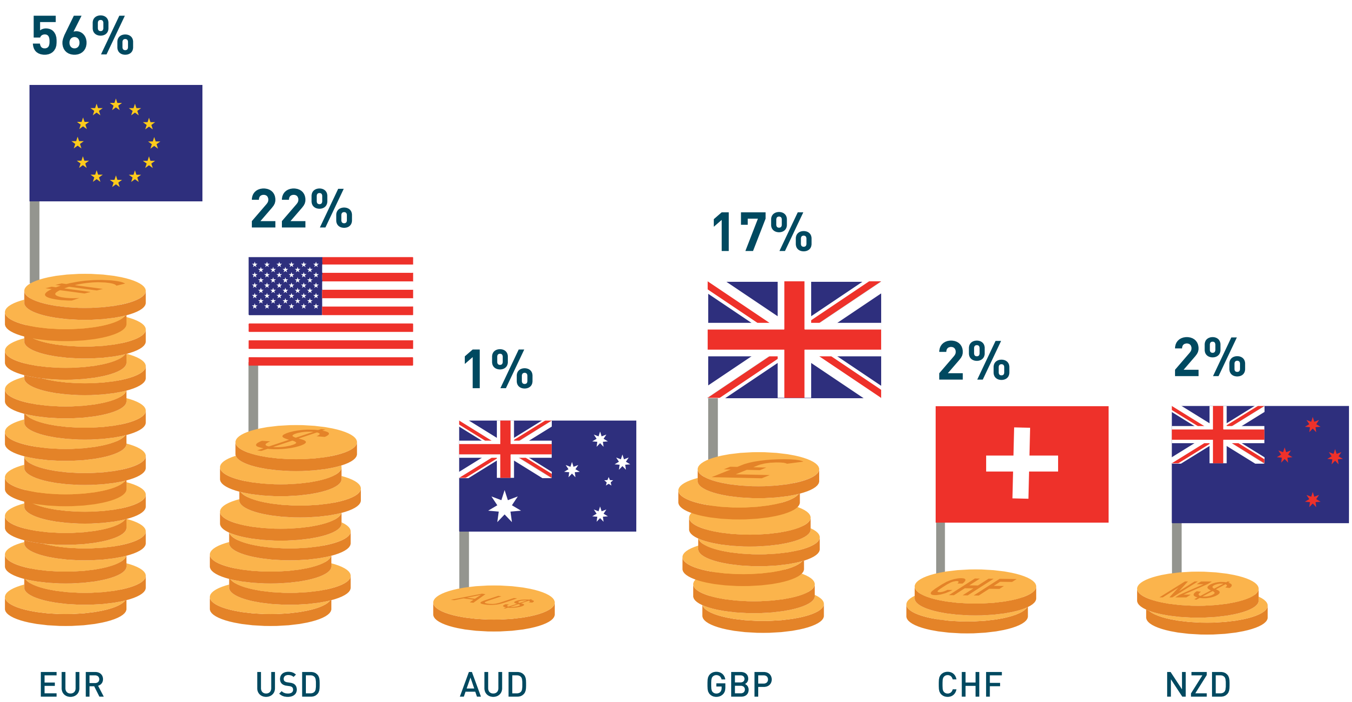
Last year, we raised over €3.6 billion in funding with ESG bonds, out of a total of €8.3 billion. We issued four SDG Housing Bonds to finance social housing in the Netherlands and a Water Bond to finance water authorities. A total of €3.6 billion is well above our internal target of raising at least 25% of our annual long-term funding from ESG bonds. Partly for this reason, we decided that going forward we will look primarily at the ratio of total outstanding ESG bonds compared to the total amount of outstanding bonds on our bank's balance sheet. At the end of 2021, we had over €18 billion in ESG bonds outstanding, which represented 31% of our total outstanding long-term funding at that time. This means we are already close to meeting our new target for 2022 of having at least 33% of our outstanding bonds qualify as ESG bonds. We want to progressively increase this target percentage by increments of 3% over the coming years. This will help us maintain our international status as a leading issuer of ESG bonds within the SSA (Sovereigns, Supranationals and Agencies) group. In the Netherlands, we are also still the largest Dutch issuer of ESG bonds.

We can finance ourselves as a bank on very favourable terms because of our safe risk profile, corroborated by AAA/Aaa ratings that are equal to those of the State of the Netherlands. The fact that the European Central Bank (ECB) buys our bank's bonds for the buyback programmes under its Quantitative Easing (QE) also contributes to this fact. We use the long-term funding we raise through bonds to both finance new lending and refinance maturing loans. The average maturity of the funding raised last year was 9.9 years (2020: 5.7 years).

TLTRO

Last year we once again made use of the ECB's TLTRO facility for €1 billion after having already raised €10 billion in this way in 2020. The rates and conditions of the TLTRO (targeted longer-term refinancing operation), which the ECB adapted to deal with the economic consequences of the COVID-19 pandemic, were so attractive that it was in our clients' interest to make use of this low-cost funding. In the middle of last year, we received confirmation that we had met the ECB's conditions and obtained an interest rate based on a -1% rate for the first year. For the period thereafter, we also met the eligibility requirements and expect to receive this attractive interest rate. We have

FUNDING RAISED BY CURRENCY



passed on the benefit of the TLTRO to our clients through new lending.

Money market financing

To raise short-term funds, we primarily use Commercial Paper (CP). We have two programmes for this: a US Commercial Paper (USCP) programme and a Euro Commercial Paper (ECP) programme. Last year, we raised almost 75% of our CP under our USCP programme: €141.2 billion in USCP (2020: €113.6 billion) versus €48.3 billion (2020: €30.9 billion) in ECP. These figures offer a cumulative view; expiring CP was refinanced during the year. The outstanding CP amount at the end of 2021 was €3.6 billion (2020: €6.2 billion). The average maturity of the USCP was 0.7 months (2020: 1.2 months) and that of the ECP was 1.9 months (2020: 3.5 months).

We use the short-term funds raised through our CP programmes for 1) cash loans to clients, 2) a higher liquidity buffer, and 3) collateral obligations from the derivative transactions we enter into as a bank to hedge our own interest rate and foreign exchange risks. In addition to the market for CP, which is marketable debt with maturities of up to one year, we are also active in short USD loans with maturities of up to two years. These loans, issued under our Medium-Term Note programme, partially replace the issuance of CP. This allowed us to lock in favourable rates for a longer period. After conversion into euros, all money market financing last year took place at negative effective interest rates.

RESPONSIBLE AND SOCIAL RETURN

As a bank of and for the public sector, we refrain from pursuing profit maximisation and instead concentrate primarily on the social return we can achieve. Everything the bank does focuses on creating added value for society. Examples include reducing clients' carbon emissions as well as affordable and sustainable social housing and healthcare. We also emphatically embrace the United Nations' SDGs. We want to create social impact with our lending, and we also try to make it as quantifiable as possible so we can subsequently link targets to it. The best example of this is the reduction of CO_2 emissions by our clients.

Financial return for shareholders

Despite our aim to primarily achieve social return, making a profit is necessary to guarantee the continuity of our bank. In 2021, we made a healthy profit of €121 million (2020: €81 million). Just as in 2020, participation in the TLTRO contributed to the profit level in the first half of the year owing to the attractive rates. We pass on favourable TLTRO rates through new loans to clients. However, because these loans often have a longer term than those of the favourable TLTRO rate, there is a shift in the result over time.

The result on financial transactions amounted to negative €20 million in the past year, compared to negative €55 million in 2020. The expected portion of this negative result is due in part to an earlier restructuring of the swap portfolio, which we implemented some years ago to align the interest rate risk position more closely with the standard return on equity. Additionally, the results stemming from the benchmark reform transition are included in the result on financial transactions.

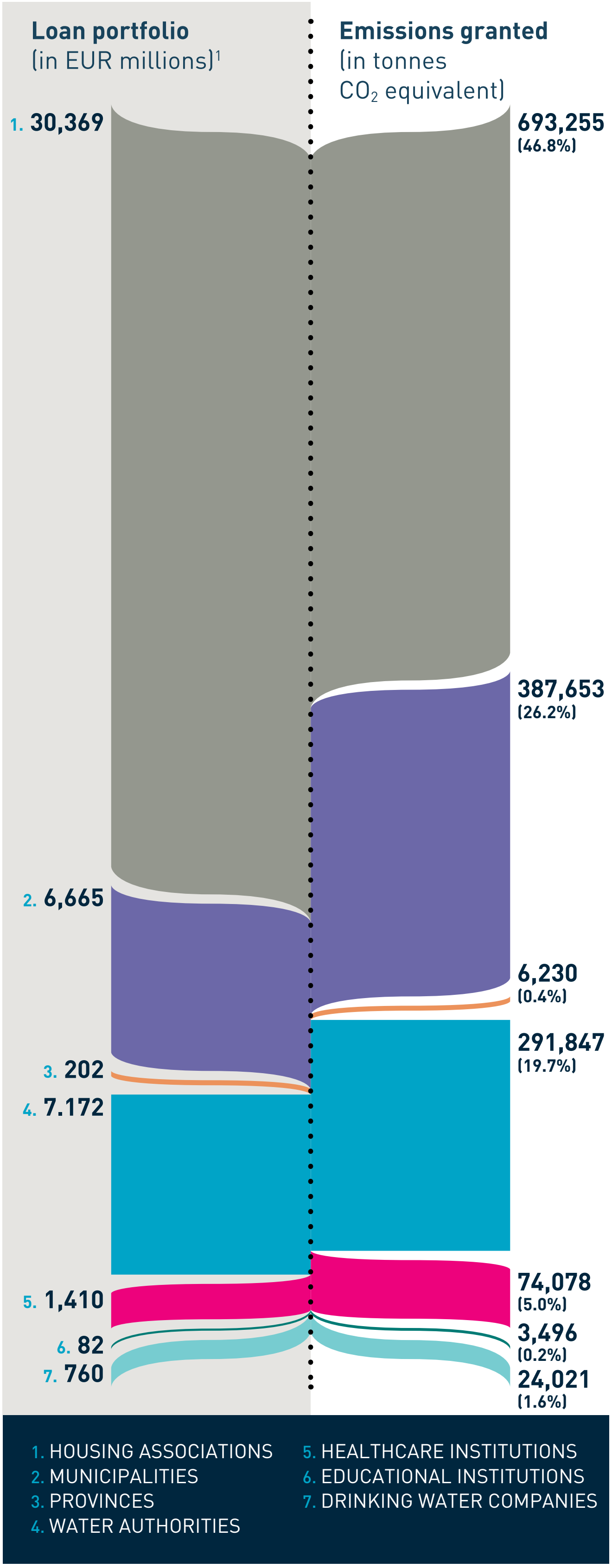
We have agreed on a benchmark target return on equity with our shareholders. The benchmark for 2021 was 3.7%, the same as in 2020. With a return on equity of 6.5%, we met this target.

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. For the 2021 financial year, the Managing Board and Supervisory Board set the profit available for distribution of dividend at €50 million (2020: €45 million). The payout ratio, therefore, amounts to 41% of profit (2020: 56%).

Impact of lending on climate

We have been able to chart the climate impact of 93.6% of our loan portfolio. To calculate the climate impact, we use the portfolio from the preceding year, so that we can use the most relevant data currently available. That is to say, the 2021 annual report is reporting on the climate impact of the loan portfolio as it stood at year-end 2020. Our loan portfolio had total emissions of 1,480,580 tonnes of CO2 equivalent at year-end 2020. This is 124,741 tonnes less than the total at year-end 2019. This is an excellent development because the total loan portfolio on which the calculation was made remained more or less the same. The emissions intensity (tonnes of CO2 eq/million euros) decreased from 34.3 to 31.7 tonnes per million euros. In 2018, the emissions intensity was still at 37.9 tonnes per million euros.

LOAN PORTFOLIO VS. EMISSIONS GRANTED



[1]This concerns the loan portfolio for which the climate footprint is calculated.

To calculate the climate impact of our lending, we use the methodology of the Partnership for Carbon Accounting Financials (PCAF). PCAF offers a framework and harmonised methodology that increases the transparency and awareness of carbon emissions and reporting. The research institute Telos/Het PON, which is affiliated with Tilburg University, has helped us calculate the climate impact and apply the PCAF methodology. The full report (including the associated methodology) can be found on our website.

To calculate the climate impact of the various client groups, we mostly used publicly available data. We are also fortunate to have been able to make use of the Water Authorities' Climate Monitor. This annual study, conducted by Arcadis, shows how much the water authorities have contributed to national targets to reduce CO_2 emissions and to renewable energy production. We commissioned this study together with the association of Dutch Water Authorities. If no CO_2 emissions information was available from a client or client group, we made an approximation of the emissions based on impact information and appropriate emissions factors. The impact data includes direct (Scope 1) and indirect emissions (Scope 2 and, depending on the sector, also Scope 3).

The calculation for clients has been made based on the ratio of the outstanding loan portfolio per client to the total balance sheet of the respective client. This results in an overall calculation of the greenhouse gas emissions for our loans.

Climate action plan

Charting your climate impact is one thing, but reducing it is what really matters. Part of our commitment to the Climate Agreement is that we have an action plan in place which dictates our concrete contributions to reduced carbon emissions. We did this last year, and our entire climate action plan is published at the same time as this annual report and can be found on our website.

As a bank, we are specifically committed to a net zero-emissions loan portfolio by 2050. We will monitor this using a so-called reduction path which is as much as possible based on sectoral targets. This reduction path, for example, expects us to have achieved a CO_2 reduction of at least 28% in 2026 compared to the emissions of our loan portfolio in 2019, the first year we began monitoring the climate impact of our financing. By 2030, we want to have achieved a 43% reduction compared to 2019. Our reduction targets were made using the Science-Based Targets methodology, an approach widely recognised within the financial sector to meet the Paris targets.

In 2022, we will work with various umbrella organisations to further develop these targets at the sectoral level. This will enable us as a bank to focus more specifically on targets and maintain an overview. It is possible that we will adjust the reduction path and intermediate targets following the talks with the umbrella organisations. Please note: our target of net zero emissions by 2050 the latest will remain unchanged. Guiding our lending to reduce climate impact is a hugely dynamic undertaking. We expect that we will have to regularly fine-tune our climate action plan and its targets, based on developments in the market and among our clients.

At the client level, we are going to ask for our clients' own climate action plans, as well as their own emission reduction targets wherever possible. The reduction in emissions will ultimately have to be carried out by them. Over the next few years, we are going to assess our clients' plans, and then monitor whether the targets and their results are in line with sectoral targets. If they are not, we will enter into a dialogue with these clients to align their plans and results with sectoral targets before 2030. This is what we call engagement.

In addition to engagement, we plan to actively offer our clients 'sustainability-linked loans'. Through a discount on the interest of their loan, we offer them an incentive to achieve predetermined sustainability key performance indicators (KPIs). By contributing in this way, we are able to set a good example and truly 'walk the talk'.

We believe it is important not to consider climate change in isolation but to continually link it to broader sustainability and social challenges when talking to clients. Think, for example, of the importance of making social housing more sustainable without compromising its affordability and availability. Or of the connection between biodiversity and climate. In 2024, we will therefore also publish a biodiversity action plan. Last year, we joined PBAF, the Partnership for Biodiversity Accounting Financials. This partnership aims to use knowledge exchange to bolster a harmonised approach to assessing and measuring biodiversity impacts within the financial sector.

CLIMATE ACTION PLAN TIMELINE

ON THE ROAD TO PARIS!

2018

- We have adopted our strategy of 'the sustainable water bank'.
- Wehave become joint commissioner of the Water Authorities' Climate Monitor.

2019

- We have committed ourselves to the National Climate Agreement.
- We have joined the Partnership for Carbon Accounting Financials (PCAF) and are able, for the first time, to calculate the climate footprint of our loan portfolio.
- We have become chair of the Biodiversity Working Group, which is part of the Dutch central bank's Sustainable Finance Platform.
- We have successfully entered the market for financing renewable energy projects.
- We have become the first organisation in the Netherlands to break through the €10 billion barrier of ESG bonds issued.

2020

- The climate footprint of our loan portfolio **decreased by 6.6%** compared to 2019.
- We have joined the Delta Plan for Biodiversity Recovery and endorsed the Finance for Biodiversity Pledge.

2021

- The climate footprint of our loan portfolio **decreased by 13.8%** compared to 2019.
- We have developed our own climate action plan including reduction targets.
- We have joined the Partnership for Biodiversity Accounting Financials (PBAF) and are able, for the first time, to calculate one of our clients' biodiversity impact.

2022

- We are well aware of the climate footprint and sectoral reduction targets of our clients.
- We develop a dashboard for the assessment of the climate performance of our clients.
- We inquire our clients about their reduction targets.
- We encourage our clients to become more sustainable, among others by providing sustainability-linked loans
- We will use the EU Taxonomy for the first time for reporting purposes.

2023

- We will analyse whether our clients' reduction targets are in line with science-based targets.
- We will engage with clients that we believe lag most behind and/or have the biggest reduction potential.
- Our office will be given energy label A.

2024

We will engage with clients that we believe lag behind and/or have significant reduction potential.

We set targets to reduce the biodiversity impact of our loan portfolio.

2026

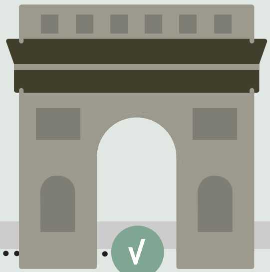
The climate impact of our loan portfolio is at least **28% lower** than in in 2019.

We will engage with all clients who do not yet have reduction targets that are in line with science-based targets.

2030

The climate impact of our loan portfolio is at least **43% lower** than in 2019.

All our clients have reduction targets that are in line with science-based targets.



2050

Our loan portfolio is generating net zero CO_2e emissions.

DILEMMAS

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 our sustainability policy. While implementing our climate action plan, we do also expect to run into some dilemmas.

GENERIC FINANCING

In most cases, we provide our clients with so-called balance sheet financing, whereby it is not a specific investment or a project that is financed but the generic financing needs of the client. This means that it is often difficult to make sure that lending is used for sustainability efforts. Even though our clients are all part of the public sector and therefore it is safe to assume that they are committed to sustainability in line with the government's ambitions, we still engage in dialogue with them and draw their attention to sustainable investments. This is what we call 'engagement'.

SUSTAINABILITY-LINKED LOANS

To encourage our clients to become more sustainable more quickly, we currently aim to grant sustainability-linked loans. With these loans, we agree on specific sustainability targets with the client in advance. Clients that achieve these targets receive a pre-agreed discount on the interest rate. However, given the fact that we do not pursue profit maximisation, our potential margins are already slim. Our scope for offering interest rate discounts is therefore restricted, and that may mean there is not a particularly big economic incentive. That is a dilemma.

NEW PRODUCTS

When addressing specific client needs, situations may arise in which the pros and cons of launching a new product must be weighed. Our product approval and review process involves weighing the risks involved from both the client's and the bank's perspective. As a result, the client may not always receive the product requested, because in our opinion there are undesirable risks associated with the product for this client or for us as a bank. This presents us with a dilemma, as we seek to assist our clients at all times while also adhering to our carefully defined and formulated policy.

CLIENT GROUPS WITH LIMITED FINANCING NEEDS

The public domain also includes client groups with relatively limited financing needs. Examples include sports clubs with a financial guarantee from their municipality and vocational schools. Because of our relatively compact organisation, it is difficult to provide these 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. If we allocated all the costs incurred for a sound analysis to the credit spread, it would lead to higher costs. However, due to our social role, we decided against this and continue to assist these small client groups.

EU TAXONOMY

We have already made the deliberate choice to voluntarily report using the EU taxonomy for sustainable activities. We are therefore optimally preparing for a time when reporting in this way becomes mandatory, and showing that as a sustainable bank we welcome such an approach. We have gradually discovered that the bulk of sustainable investments by the public sector does not yet qualify for a 'green' label under the taxonomy. This is because the funding we provide to our clients is generally not earmarked for one specific project but can be spent freely by the client. The taxonomy requires that funds borrowed be spent on 'green' activities, and this is much harder to verify in so-called balance sheet financing. This means that in our reports we can show a relatively low ratio of (according to the taxonomy) 'green' financing. This is disadvantageous because investors in our bonds may consider this when making their investment decision. If, due to a low 'green asset ratio', demand for our bonds decreases, it may become more difficult for us to attract low-cost sustainable funding. This in turn could lead to higher financing costs for the public sector, which is undesirable at a time when a great deal needs to be invested to make the Netherlands more sustainable.

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. We believe this clause is detrimental to a fair and transparent tender process. That is why we refrain from submitting a tender in processes of this type. The rebound results in three dilemmas. First and foremost, we seek to provide financing to our clients at all times but cannot do so if we do not submit a tender. In addition, clients should receive a minimum of two quotations, in line with their own statutes and, in some cases, according to legislation. When other finance providers refrain from offering quotations because they know a rebound is involved, those clients will often turn to us 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

Our Articles of Association stipulate that we 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 significant shortage of mid-rent housing, for example, it may be that these clients find it hard to obtain appropriate or affordable financing. Although we understand the sector's wishes in this regard, we do not consider such non-guaranteed financing to dovetail with our risk profile and risk appetite.

HOLDERS OF ESG BONDS

We offer investors the opportunity to invest in ESG bonds. In addition to our traditional investment considerations, such as investment safety and the risk-return trade-off, many of our bonds are purchased by specific investors who want to support sustainable and/or social projects with their investment. Since our bank issues 'bearer bonds', the precise identity of the holders of those bonds is not known. Although order books are scrutinised and the sustainable character of the initial investors screened at the time of issuance, the bonds are tradable without recourse to our bank. It is, therefore, possible that the bank's bonds are held by entities that do not apply sustainable business practices themselves.

DIVERSITY AND INCLUSIVENESS VERSUS PRIVACY

We highly value diversity and inclusiveness in our workforce. We want individual employees to complement each other in terms of their knowledge and experience, and collectively ensure a balanced representation of society. At the same time, guaranteeing the privacy of our employees is of paramount importance to us. Our small workforce is the reason we are reticent about reporting on diversity and inclusiveness in detail. Detailed reporting could be traced back to individuals, which would breach their privacy. Nonetheless, we devote a great deal of attention to diversity and inclusiveness, and awareness of these issues, but refrain from reporting on them in detail for the reasons mentioned above.

OUTLOOK 2022

We expect to be able to meet the financing needs of the Dutch public sector in 2022 in the same socially responsible and sustainable way as last year. We are cautious in forecasting the net profit for 2022, partly because of uncertainties relating to ongoing geopolitical developments. In the first months of the year, the war in Ukraine, and its knock-on effect on the international capital market, had little to no negative impact on our organisation. The positive effects of participating in the TLTRO will be more limited this year but, on the other hand, we expect a lower tax burden from the minimum capital rule and bank tax.

GOVERNANCE

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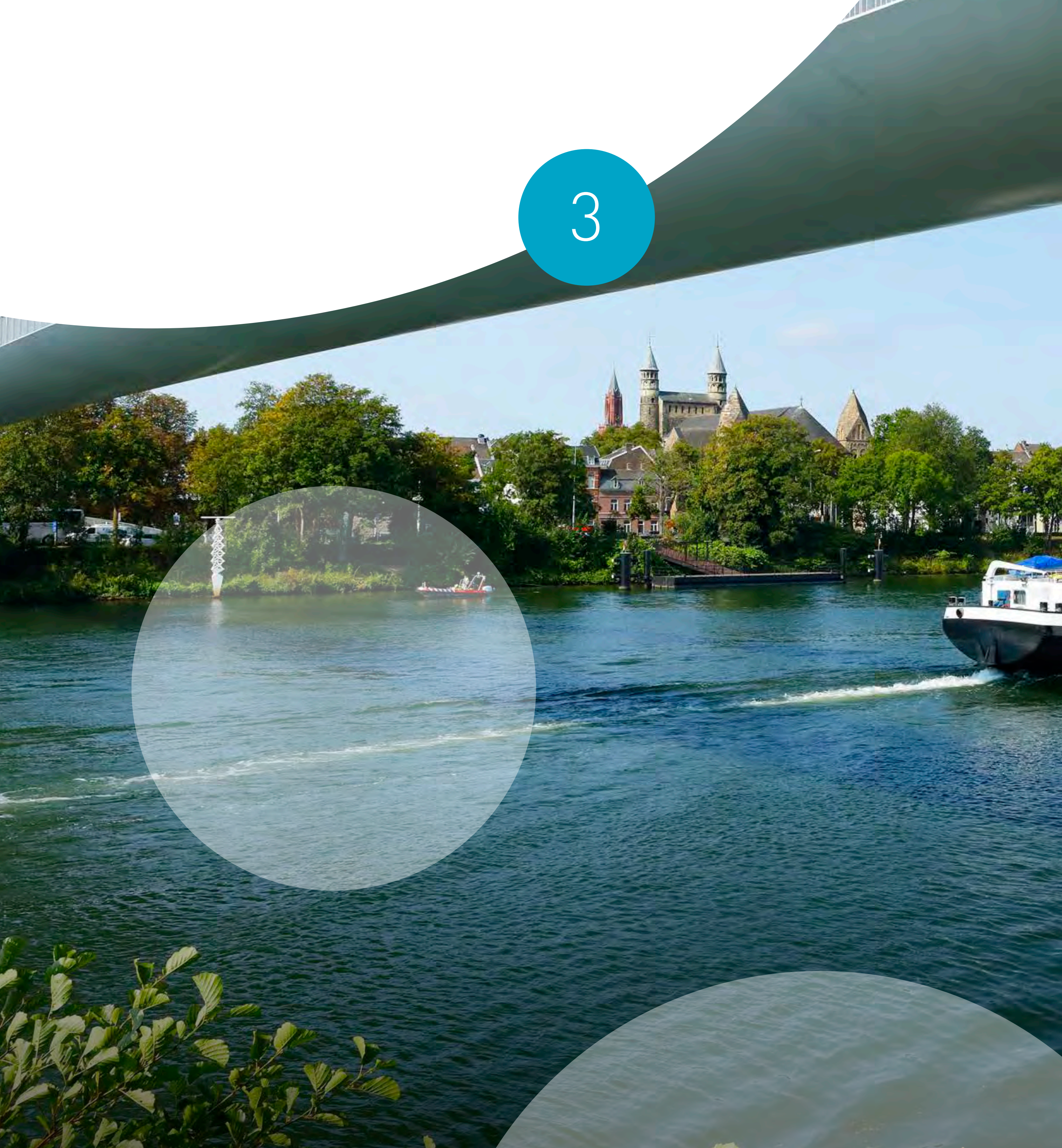


MANAGING BOARD/EXECUTIVE COMMITTEE

Lidwin van Velden
(1964)

Year of first appointment
2010

Term of office ends in
2026

Principal position
Chief Executive Officer

Portfolio
Strategy, communication, legal & corporate affairs, internal audit, human resource management

Relevant other positions
Member of the Supervisory Board of Centraal Beheer Algemeen Pensioenfonds, Member of the Supervisory Board of PharmAccess Group Foundation, Member of the Board of Impact Economy Foundation

Melchior de Bruijne
(1974)

Year of first appointment
2018

Term of office ends in
2022

Principal position
Chief Financial Officer

Portfolio
Finance & control, back office, ICT, fiscal affairs, business continuity management

Relevant other positions
None

Frenk van der Vliet
(1967)

Year of first appointment
2012

Term of office ends in
2024

Principal position
Chief Commercial Officer

Portfolio
Public financing, funding & investor relations, asset & liability management and corporate social responsibility

Relevant other positions
None

Ard van Eijl
(1973)

Year of first appointment
2018

Term of office ends in
2022

Principal position
Chief Risk Officer (non-statutory)

Portfolio
Risk management (financial and non-financial), compliance and security management

Relevant other positions
None

SUPERVISORY BOARD

Joanne Kellermann
(1960), chair

Committees
Member of the Audit Committee, member of the Remuneration and Appointment Committee

Year of first appointment
2020

Term of office ends in
2024

Principal position
Chair of Pension Fund Zorg en Welzijn

Relevant other positions
Chair of the Supervisory Board at Utrecht University, Chair of the Supervisory Board at Aflatoun International, Member of the Committee for European Integration at the Advisory Board for International Affairs (advising the Minister of Foreign Affairs), Member of the Identification Committee at Transparency International, Member of the Supervisory Board at Veerstichting, Member of the Advisory Board at PRIME Finance, Director at KellerCo BV

Toon van der Klugt
(1956), deputy chair

Committees
Member of the Remuneration and Appointment Committee

Year of first appointment
2017 (EGM)

Term of office ends in
2022

Principal position
Chair of the Water Authority of Schieland and Krimpenerwaard

Relevant other positions
Deputy chair and secretary at Stichting Administratiekantoor Vreugdenhil-Klugt Beheer, Chair at GR De Regionale Belastinggroep (the RBG), Chair at the Association of South Holland Water Authorities

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

Last position held
Member of the Executive Committee/Chief Risk Officer at Intertrust Group (until November 2020)

Relevant other positions
Non-executive Director/Board member, member of the Audit Committee Board and of the Risk Committee Board at Nordea Bank group, Chair of Advisory Board Credit Committee at the Ministry of Economic Affairs and Climate Policy (March 2021), Member of Supervisory Board and Chair of Risk & Compliance Committee at de Volksbank (September 2021), Member of Donations Review Committee at Leiden University, Member of the Board and Audit Committee at Oranje Fonds

Frida van den Maagdenberg
(1961)

Committees
Member of the Risk Committee

Year of first appointment
2017

Term of office ends in
2025

Principal position
Member of the Executive Board at Academic Medical Centre (AMC)
Member of the Executive Board at VU Medical Centre (VUMC)

Relevant other positions
Member of the Supervisory Board and Chair of the Audit Committee at Nederlandse Loterij (Dutch Lottery, Member of the Central Planning Committee at CPB, Member of the Supervisory Board (Vice-Chair as of January 2021) at the Netherlands Institute for Healthcare Research (NIVEL)

Annette Ottolini
(1958)

Committees
Chair of the Remuneration and Appointment Committee

Year of first appointment
2019

Term of office ends in
2023

Principal position
General Director and Board Member at Evides Waterbedrijf

Relevant other positions
Member of the Supervisory Board at Delfluent B.V., Board member at Deltalinqs, Board member at VEI, Board member at Water for Life Foundation

Lex van Overmeire
(1956)

Committees
Chair of the Audit Committee, member of the Risk Committee

Year of first appointment
2021 (EGM)

Term of office ends in
2026

Last position held
Partner at EY Accountants LLP (until mid-2016)

Relevant other positions
Member of the Supervisory Board and Chair of the Audit Committee at ARQ Foundation, Chair of the Audit Advisory Committee at Centrum Indicatiestelling Zorg, Member of the Supervisory Board and Chair of the Audit and Compliance Committee at Van Lanschot Kempen

Manfred Schepers
(1960)

Committees
Member of the Audit Committee, member of the Risk Committee

Year of first appointment
2016

Term of office ends in
2024

Principal position
CEO at ILX Management B.V.

Relevant other positions
Member of the Supervisory Board and Chair of the Risk Committee at Van Lanschot Kempen, Chair Stichting Het Compagnie Fonds at Het Scheepvaart Museum, Member of the Board of Governors at UWC Atlantic College (until May 2021)

Maurice Oostendorp
(1956)

Maurice Oostendorp was a member of the Supervisory Board beginning on 22 November 2012, and he held the position of Deputy Chair beginning on 23 April 2015. He was also Chair of both the Audit and Risk Committee beginning in mid-2014. After splitting this committee into two separate committees, he became Chair of the Audit Committee and a member of the Risk Committee beginning in mid-2016. Maurice Oostendorp stepped down during the AGM in April 2021 (due to having reached the maximum term length) and was succeeded by Lex van Overmeire in September.

Interview

Joanne Kellermann

Chair of the Supervisory Board

"It was an intensive year"

This was your second year as chair of the Supervisory Board of NWB Bank. What did you make of this period?

It was an intensive year in which I got to know the organisation much better. I notice that I've become more familiar with how the bank works, and I've also experienced much more of the 'customer journey'. But of course, it bears mentioning: I would have liked to see a lot more. Unfortunately, due to obvious circumstances, I was only able to see and speak to a few employees personally. The fact that you never spontaneously bump into or speak to the bank's employees was obviously a real disappointment."

You refer to the COVID-19 situation in the Netherlands and the limitations that entailed. As a Supervisory Board member, did you meet digitally last year or was it possible to meet physically?

We saw each other physically when we could, but most of the meetings last year were held digitally."

What were the most important issues in the past year from the point of view of the Supervisory Board?

"Last year was largely marked by the change programme that was initiated internally. The organisation set to work on the priorities for the internal organisation that were formulated in 2020, together with the lessons learned from the fraud incident that occurred in 2021. All of this has been laid down in the 'Lighthouse' change programme, which was launched before the summer. Of course, this has been very important for us. We discuss the progress at every meeting and, of course, as Supervisory Board members, we offer tips and advice based on our own experience.

In 2021, we also had the mid-term review of the bank's strategy. The 'sustainable water bank' strategy originally ran until 2023, and we decided to extend the associated targets until 2026. As a Supervisory Board, we are very happy with that strategy. We have extensively evaluated all three strategic pillars with the Executive Committee: (1) bank of and for the public water sector, (2) essential player in financing the Dutch public sector and (3) financing partner for enhancing sustainability in the Netherlands. And because we are on course, and can also make a real contribution to society. We all agree that we want to continue with the strategy.

To mention one last theme: we think it's very significant that the bank has succeeded in fulfilling its social role in the past year, despite all the difficulties surrounding COVID-19. We achieved the largest lending volume ever, and partly thanks to our participation in the TLTRO, we were able to do so at a competitive level.

Finally, NWB Bank completed a number of large and exceptional transactions last year. I would like to mention the Vestia loan exchange and the WSW obligo loans in particular. As the Supervisory Board, we looked very closely at these transactions to determine whether they were all possible, what the operational risks were, and whether the pressure of work was not increasing too much. We can be proud that all these matters took place last year and turned out well!"

When it comes to the energy transition, NWB Bank sometimes deliberately takes on more risk in order to create social impact. How does the Supervisory Board monitor this?

"That's an ongoing issue, of course. In order to be of social significance, we are prepared to take on a little more risk. We want to do that. The question then becomes: how do you balance that, what do you do when, what is the best way of going about it? These are all questions that we discuss with the management.

We also discussed at length the opportunities that the coalition agreement offers NWB Bank. These opportunities certainly include the energy transition, but also, for example, the enormous housing challenge we face in the Netherlands. Those agendas are pretty ambitious and a lot of money is available. We specifically ask management how they can use the bank's expertise in these matters."

What were the highlights of the past year in your role as chair of the Supervisory Board?

"This might be a personal answer, but we had an incredibly fun meeting for women in the water space called 'Women in Water'. A number of women within the bank took the initiative to make it happen. There was an inspiring speaker, who among other things talked about how to be effective as a woman. A number of top women from the water space were invited, including all the women on the Supervisory Board. That worked out incredibly well. There are now a few female chairs of water authorities, there are female directors of drinking water companies, quite a few service providers that are women – you name it. Everyone was very enthusiastic. The meeting also took place physically, so we were able to see each other again. 'MeToo' is a big issue in the news and, because it's such a difficult topic, it can really wear on you. But this session was about how you can be powerful as a woman and reinforce each other by expressing female values in management.

Our meeting in August at the Amstel, Gooi and Vecht Water Authority was also very inspiring. It's always a treat to literally pull up your bootstraps and see and experience in practice what we as a bank make happen, and what the water authorities are up to. For me, it was extra fun this year, because the excursion turned out to be less than five kilometres from my own home! It was interesting to gain a different perspective of your own surroundings. In this case, we visited the Demmerik neighbourhood and saw the De Ruiter pumping station. The pumping station is used to regulate the water level in the peat polders, and it pumps water from the Vinkeveen lakes into the Geuzensloot, allowing the water to flow to the Angstel river and the Amsterdam-Rhine Canal."

How would you characterise the cooperation between the Supervisory Board and Managing Board in 2021?

As a Supervisory Board, we focused very intensively on the bank in the past year, and in particular on both the fraud incident and on the change programme. So intensely, in fact, that at a certain point we felt we had to take a step back. We must always remain conscious of the role we are here to fulfil. I compare it to a dance, where partners have to listen carefully to the music. The cooperation between the Supervisory Board and Managing Board was good – but intense."

What can you say about the relationship with NWB Bank's various stakeholders?

"It remains my top priority to get closer to the bank's stakeholders again in the coming year. That was also difficult this year as a result of COVID-19. Indeed, it's unrealistic to think that the entire Supervisory Board can manage to visit every water authority. But we're going to make an effort to see more stakeholders, perhaps in smaller groups.

We would also like to know more about the housing associations. That's one of the things we want to pick up in the coming year. We have a large market share in financing this sector and the bank fulfils an important social function in the Netherlands in this regard. The number of homes that need to be either built or made more sustainable is enormous, and it's important for us to understand what's needed, what housing associations are doing, how they operate and what their plans are. We're at a point where things are changing fundamentally and it's important to keep on top of that."

What will the Supervisory Board focus on in 2022?

"In general: monitoring the bank's strategic goals, and especially the impact the bank can have in the Netherlands. The focus on this is picking up because a number of issues, such as climate change, nitrogen and housing construction, are more urgent than ever. With a new government that has earmarked a lot of money and dedicated attention to these issues, we must now really show how we can contribute. So there are enormous opportunities.

At the same time, much remains to be done within the bank. The change programme is in full swing. So that's another important subject that we'll continue to monitor. We're also going to focus more on the bank's long-term value creation model, which is closely intertwined with the bank's strategy."

Which developments will have the most impact on NWB Bank, both on the organisation and on the bank's stakeholders?

"As I said, we think that the new coalition agreement and the plans from Brussels for greening our economy offer enormous opportunities for our bank. But then you have to be active and look for cooperation. It's no longer the case that we're the only bank that wants to tackle social issues of this kind."

Businesses are increasingly being thought of in terms of impact: how do you contribute to the SDGs?

"In fact, traditionally, this is what NWB Bank has always been doing, only we never specifically referred to it in that way. We're now working to make that much more visible and to integrate it better into the banking process. This includes embedding ESG risks into the bank's lending process, and also measuring output in terms of impact. This presents the bank with all kinds of opportunities as well as new challenges. We may become less unique in terms of our social mission. We see that commercial banks also want to make a social and sustainable impact. We will have to be realistic about this. One of the things the Supervisory Board is in favour of is really looking at long-term developments: to what extent are they relevant to the bank, and how can the bank respond to them?"

What are you proud of?

A lot of work has been done by the Managing Board and staff, sometimes under difficult circumstances. I think it's important that we, as Supervisory Board, let it be known that we appreciate this enormously and are proud of what has been achieved. Furthermore, the bank has hired a lot of new people. We very much hope that we will have the opportunity to show our faces and get to know each other even better in the coming year."

REPORT OF THE SUPERVISORY BOARD

SUPERVISION

Report on the Supervisory Board's supervisory activities

The Supervisory Board operates in accordance with relevant legislation and regulations, and all Dutch and European directives and codes. It fulfils the role of supervisor, advisor and employer for the Executive Committee. In 2021, the Supervisory Board drew up a Supervisory Vision, which explicitly states how it wants to relate to the Managing Board, the organisation and the work environment at NWB Bank, as well as what its guiding principles are. This vision, therefore, contributes to the Supervisory Board's accountability. The members of the Supervisory Board consider it important to act independently within the team context, both with regard to each other and with regard to Managing Board, and to act as an involved discussion partner for all stakeholders – with due regard for the division of roles between the Supervisory and Managing Board.

Meetings

The Supervisory Board held seven regular meetings with the Executive Committee in 2021: six regular meetings and one strategy session in which 100% attendance was achieved. The Supervisory Board meets in private during the first part of each meeting (i.e. without Executive Committee). During this first part, factors relating to the work environment, observations about individual Supervisory Board members and the primary objectives of the meeting are briefly discussed. In the plenary part of the meeting, the overall results of the closed consultation are then shared with the Executive Committee.

As in the previous year, additional discussions between the Executive Committee and Supervisory Board took place in 2021. In the first half of 2021, additional consultations took place as a result of the fraud incident that came to light in mid-January. Also, the chair of the Supervisory Board held a fortnightly telephone consultation with the chair of the Executive Committee, partly in connection with the COVID-19 pandemic. Other regular meetings that took place in 2021 included an interim meeting with the shareholders and participation in two Works Council meetings.

Key points in 2021

The Supervisory Board concluded that 2021 was an exceptionally demanding year for NWB Bank. This was due not only to the consequences of the pandemic, but also

ATTENDANCE OF SUPERVISORY BOARD MEETINGS AND RELEVANT COMMITTEES 2021

	Joanne Kellermann	Maurice Oostendorp/ Lex van Overmeire[1]	Petra van Hoeken	Toon van der Klugt	Frida van den Maagdenberg	Annette Ottolini	Manfred Schepers
Supervisory Board	7 of 7	3 of 3	7 of 7	7 of 7	7 of 7	7 of 7	7 of 7
Audit Committee	4 of 4	2 of 2	4 of 4	N/A	N/A	N/A	4 of 4
Risk Committee	N/A	2 of 2	4 of 4	N/A	4 of 4	N/A	4 of 4
Remuneration and Apointment Committee	3 of 3	N/A	N/A	3 of 3	N/A	3 of 3	N/A
Total	**14**	**7**	**15**	**10**	**11**	**10**	**15**
Attendance percentage	100%	100%	100%	100%	100%	100%	100%

1) Maurice Oostendorp stepped down from the AGM on 15 April 2021. His successor, Lex van Overmeire, was subsequently appointed to the Supervisory Board at the AGM on 10 September 2021.

to the implementation of the first key objectives included in the change programme, in addition to carrying out a number of socially significant transactions.

In 2021, the Supervisory Board paid particular attention to:

Change programme

In mid-January 2021, an incident of fraud came to light. The entire Supervisory Board had been informed of the incident, and the regulator was also notified. The Supvervisory Board helped to guide an external investigation, providing information and advice. The results of both an internal and external investigation were shared with the Supervisory Board in a separate meeting on 26 April.

The Executive Committee decided to include the findings of this study in a broader change programme that was partially implemented in 2021, and will be again in 2022. The change programme is an elaboration of the four priorities formulated in 2020 aimed at strengthening the internal organisation, which also incorporate the lessons learned from the fraud incident. The Audit Committee and the Supervisory Board are kept informed by the Executive Committee about the measures taken and progress made by means of updates to the change programme.

COVID-19 pandemic

In 2021, the global crisis surrounding the COVID-19 pandemic and the response that followed have had a major social impact, with significant consequences for public health and the economy. NWB Bank once again proved that it was able to effectively fulfil its social duty as a promotional bank – even under these circumstances – which resulted in a record volume of new lending.

In addition, the bank's Business Continuity Team (BCT), in coordination with the Executive Committee, was able to ensure the safety of employees and the continuity of core processes through intensive monitoring and the implementation of appropriate measures. The bank's secondary facility was used again this year, allowing critical operational functions to be spread across two locations. The bank's other employees mostly worked from home, with some interruptions.

Mid-term review strategy of the sustainable water bank 2019-2023

The annual strategy meeting between the Executive Committee and the Supervisory Board was dominated by the mid-term review of the sustainable water bank strategy. Based on the state of affairs regarding the objectives for 2019-2023, it was concluded that the bank was on course and that the strategy had been successful. Because of the strategy's success, it was decided to extend its term, and new quantitative targets were set for the period up to and including 2026. Existing targets were also tightened up, which was endorsed by the Supervisory Board. During the strategy discussion, the Supervisory Board also considered national and European aims and regulations in the field of sustainability, and how the bank can play an even greater role in the sustainability challenges that the Netherlands faces. The Executive Committee indicated that it was closely monitoring these developments, and that further embedding of ESG protocol was also fundamental to the change programme.

Dividend payout

At the urgent request of the ECB, and in connection with the uncertainties surrounding the COVID-19 pandemic, NWB Bank did not immediately pay the dividend declared for the 2019 and 2020 financial years. The Supervisory Board and the Executive Committee are pleased that the payment was ultimately made at the beginning of October.

Other tasks

Other subjects discussed by the Supervisory Board include developments in the financial markets, client relationships, lending and funding, balance sheet and profit development, dividend, legislative and regulatory developments and ECB/DNB supervision, and the external auditor's report. In addition to the regular reports and topics, the Supervisory Board devoted specific attention to the incident of fraud, strategic staff planning, participation in TLTRO financing, the update of the Insider Regulation, the appointment of a new Supervisory Board member, the evaluation of the remuneration structure of the Supervisory Board and the self-evaluation of the Supervisory Board under the guidance of an external advisor.

Relationship with shareholders

In 2021, informal consultations with NWB Bank shareholders were held in April and November, attended by both the chair of the Executive Board and the chair of the Supervisory Board. Topics of discussion included the fraud incident, the 2021 interim report, the impact of COVID-19 and dividend distribution.

The Supervisory Board also held two meetings with the Directorate Financing at the Ministry of Finance in 2021. The chair of the Supervisory Board, together with the chair of the Audit Committee, held the pre-AGM consultation. The chair of the Supervisory Board and the chair of the Remuneration and Appointment Committee took part in the autumn consultation.

REPORT OF COMMITTEES

The Supervisory Board has three committees: the Audit Committee, the Risk Committee and the Remuneration and Appointment Committee. The members of the Supervisory Board all have a standing invitation to attend committee meetings. In accordance with their own charters, these committees prepare decision-making and advise the Supervisory Board on various subjects.

Audit Committee

The Audit Committee consists of Lex van Overmeire (chair),[2] Petra van Hoeken, Joanne Kellermann and Manfred Schepers. The committee met four times last year in the presence of the Executive Committee and the internal and external auditors. In addition, the external audit partner was replaced at the General Meeting of Shareholders due to having reached the maximum term. The head of Finance & Control and the head of IAD are regularly invited to the meetings of the Audit Committee. In addition, prior to each meeting of the Audit Committee, the chair of the Audit Committee holds a meeting with both the internal and the external auditors. At least once a year, the Supervisory Board meets with the external auditor without the Executive Committee being present. At least once a year, the Supervisory Board also meets with the internal auditor without the Executive Committee being present. Members of the Risk Committee make use of the standing invitation for the Audit Committee as a matter of course.

The Audit Committee discusses financial developments on the basis of the quarterly report from the Executive Committee. The report of the internal audit department comments, where necessary, on developments in the quarter, both financial and operational (incl. monitoring of the change programme). Regulatory developments are also discussed.
During the year under review, the Audit Committee paid specific attention to the incident of fraud that came to light in January 2021. The chair of the Audit Committee (together with the chairs of the Risk Committee and the Supervisory Board) was kept up to date on the ongoing progress of the situation. Mitigating measures to improve or strengthen the processes were subsequently included in the change programme, which was discussed in the Audit Committee on each occasion. Other specific subjects on the Audit Committee's agenda were the consequences of the COVID-19 pandemic for the financial markets and the social role of the bank during the global crisis, the IT landscape and cybercrime, the bank's operations, the accounting impact and operational processing of the Vestia loan exchange and the granting of WSW obligo loans to housing associations. Furthermore, as in 2020, the bank made active use of TLTRO funding and used this funding to provide its clients with even cheaper loans. This required a net growth in eligible lending, which the bank achieved. During the meeting at which the financial statements were discussed, both the independent audit report by the external auditor and the quarterly report by the internal auditor were included on the agenda. The key audit matters reported on were also discussed with the external auditor.

Other issues discussed included lending and the money and capital markets, safeguarding critical operating processes, staffing and staff on-boarding, prudential and regulatory measures, hedge accounting and fair value measurement of derivatives and non-financial issues, the

2) Until his retirement in April 2021 (due to having reached the maximum term of office), Maurice Oostendorp held the position of chair of the Audit Committee.

value of derivatives and non-financial information, the dividend, the issuance of ESG bonds and provisions for potential credit losses based on the IFRS9 ECL model. Regular topics of the Audit Committee were projections and reporting by the external and internal auditors, including findings related to safeguarding access to and continuity of automated data processing and, more specifically, the results of the business continuity tests performed. The findings of ECB supervision were also discussed.

Risk Committee

The Risk Committee consists of Petra van Hoeken (chair), Frida van den Maagdenberg, Lex van Overmeire[3] and Manfred Schepers. The members of the Audit Committee make regular use of a standing invitation to attend meetings of the Risk Committee. The committee met four times last year in the presence of the Executive Committee and the internal and external auditors. The head of Compliance and the head of the IAD are regularly invited to attend the meetings of the Risk Committee. In addition, regular bilateral consultations take place between the chair of the Risk Committee and the CRO.

As in the Audit Committee, this year the Risk Committee paid specific attention to the incident involving fraud that came to light in January 2021, the findings of which – including those concerning the further strengthening of risk management – have been incorporated into the change programme.
The Risk Committee also discussed the creditworthiness of the clients and the loan portfolio, and the impact of COVID-19 on this, funding, the continued development of credit monitoring and the lending process, as well as the bank's liquidity and capital position. The internal processes of the annual capital and liquidity adequacy assessment (ICAAP/ILAAP) were also reviewed. Other topics discussed included the annual update of the Risk Appetite Statement, the Compliance Framework, the SIRA 2020, CDD and Transaction Monitoring as well as non-financial risks, such as operational risks, ESG risk and reputational risk. In the November meeting, the Risk Committee approved the annual update of the RC Charter, discussed the Recovery Plan and considered the draft SREP decision 2021. Regular topics covering the design and operation of the risk management and internal risk management and control systems were also discussed and assessed, including operational risk incidents and audit issues.

Remuneration and Appointment Committee

The Remuneration and Appointment Committee consists of Toon van der Klugt (chair)[4], Annette Ottolini and Joanne Kellermann. The committee met three times last year in the presence of the CEO and the head of Human Resources. In addition, in the first half of 2021, the committee and the Selection Committee, which is set up separately for each vacancy, dealt with the recruitment and eventual nomination for appointment of a member to the Supervisory Board.

In 2021, the Remuneration and Appointment Committee again paid close attention to the impact of COVID-19 measures on employees and the organisation. Again, the committee found that the organisation has proactively and adequately responded to the effects of the COVID-19 pandemic by taking preventative measures and limiting the impact of the coronavirus on the organisation and employees. Based on learnings from working from home during the pandemic, a hybrid working arrangement was established for the bank's employees in 2021, which allowed for work both at the office and from home on a structural basis.

The committee also considered the outcomes of the Strategic Personnel Planning (SPP) in 2021. Strategic Personnel Planning through 2026 anticipates continued growth of the organisation. The bank's SPP process also includes an inventory of employees' performance, talents and development potential. The four priorities for strengthening the internal organisation defined by the management team and the Executive Committee

3) Until his retirement in April 2021 (due to having reached the maximum term of office) Maurice Oostendorp was member of the Risk Committee.
4) Toon van der Klugt was appointed deputy chair by the Supervisory Board on 3 December 2021 and Annette Ottolini was appointed chair of the Remuneration and Appointment Committee on that date. Toon will remain a member of this committee.

in 2020 have been incorporated into the broader change programme.

At the end of last year, the Remuneration and Appointment Committee initiated an evaluation of the committee's remuneration, which is scheduled for a five-year review at the Annual General Meeting in April 2022. The Supervisory Board also carried out a **self-evaluation (see page 93)** of its activities at the end of 2021. As a result of amended legislation and regulations as well as adjusted guidelines, the charter of the Remuneration and Appointment Committee, the diversity policy and the staff remuneration policy were all updated at the end of 2021. The changes mainly concern the remuneration policy, specifically with regard to gender equality. Other regular topics discussed in the committee were training costs, absenteeism and staff recruitment and retention.

At the General Meeting of Shareholders in 2021, the chair of the Executive Committee was reappointed and Frida van den Maagdenberg was reappointed as a member of the Supervisory Board. The vice-chair of the Supervisory Board stepped down because he had reached the maximum term of office of eight years. On 10 September 2021, a new member of the Supervisory Board, Lex van Overmeire, was appointed for a period of four years. The Supervisory Board has appointed him as chair of the Audit Committee.

The chairs of the Supervisory Board, Remuneration and Appointment Committee, Audit Committee and Risk Committee held end-of-year meetings with the members of the Executive Committee. In addition to each member's individual and collective targets, 360-degree feedback also forms part of the assessment cycle. Feedback from these discussions takes place in the closed section of the meeting.

For an extended explanation of the remuneration policy, see the **Remuneration Report (see page 96)** of this annual report.

INTERNAL ORGANISATION

Composition of the Supervisory Board

The composition and personal details of the NWB Bank Supervisory Board are presented at the beginning of this chapter and are in line with the desired diversity and synergy within the team. More information about diversity and the independence of the Supervisory Board can be found in the **Corporate governance (see page 101)** section. The Supervisory Board consists of seven members, four of whom are women and three men, which means that the Supervisory Board meets the required level of gender diversity.

DISTRIBUTION OF AREAS OF EXPERTISE ON SUPERVISORY BOARD

AREAS OF EXPERTISE	Joanne Kellermann	Lex van Overmeire[1]	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
Regulation	X	X	X				X
ICT/cybersecurity		X	X	X	X	X	
HR/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 sustainability	X	X	X	X		X	X
Business operations/outsourcing				X	X		
Communication	X					X	

1) Maurice Oostendorp was a member of the Supervisory Board until 15 April 2021. His areas of expertise are largely the same as those of his successor.

QUALITY ASSURANCE OF SUPERVISION

Self-evaluation

Since 2013, the Supervisory Board has used an online evaluation tool for its annual self-evaluation. Once every three years, the self-evaluation is carried out with an independent external organisation. The last self-evaluation of the Supervisory Board took place in 2018 under the supervision of an external advisor. Consequently, the Supervisory Board evaluated its own performance again under independent external guidance at the end of 2021.

In preparation for the self-evaluation, the advisor held an exploratory discussion with the chair and secretary of the Supervisory Board to obtain information about the Supervisory Board's composition and the context in which it operates, and in order to be able to include any relevant points of attention in the online questionnaire for the self-evaluation. All members of the Supervisory Boad completed a digital questionnaire based on eight themes. Using the results of this questionnaire, the advisor conducted one-on-one interviews with the members of the Supervisory Board, the chair of the Executive Committee and the secretary of the Supervisory Board. One of the observations that came out of the interviews is that, although the Supervisory Board is positive about its own performance, it does not want to become complacent and the Board is prepared to take a critical look at the way it operates. The written report was then shared with the Supervisory Board, and a plenary meeting of the Supervisory Board served to highlight relevant topics such as its composition and activities, decision-making, responsibility and relationships with stakeholders.

The report showed that the processes and decision-making are transparent and well-structured, and, from an operational point of view, the Supervisory Board wishes to pay special attention to the implementation of continuing education sessions and progress reports. The composition of the Supervisory Board is diverse in terms of competencies, backgrounds and gender, but in terms of age and ethnic/cultural background there is still room for improvement. There is a high degree of openness, respect and trust both within the Supervisory Board and towards the Executive Committee. In terms of opportunities for improvement, the Supervisory Board acknowledges that more knowledge could be acquired about the changing markets in which the bank operates, partly for the benefit of the long-term strategy. In line with findings from previous self-evaluations, it appears that there is a need for more insight into the organisation's culture. In a separate meeting with the Executive Committee, the Supervisory Board will discuss the transparency and, where possible, measurability of the bank's long-term value creation aim. The Supervisory Board also intends to increase informal contact with the organisation as soon as it is physically possible to do so again. The Supervisory Board shared the outcome of its evaluation meeting with the Executive Committee.

As it does every year, the Supervisory Board aims to schedule a lunch meeting with the management team and/or NWB Young Professionals. Because of COVID-19, only an online lunch meeting with the management team was held in 2021. Another recurring point of attention concerns taking time out for meeting in a more relaxed atmosphere before and after meetings of the Supervisory Board.

From the self-evaluation, it can be concluded that the Supervisory Board and its committees function well, and integrity, openness, diversity of composition in terms of competencies and support and the safeguarding of expertise are all assessed positively. The Supervisory Board was adequately informed by the Executive Committee, which enabled the Supervisory Board to fulfil its role as supervisor, employer and advisor to a satisfactory degree. Furthermore, interaction with Managing Board was positively evaluated.

Lifelong learning

NWB Bank places great importance on lifelong learning (LL). Presentations by internal experts were once again given to the members of the Supervisory Board in this context in 2021. The regular LL sessions covered Financial Crime, Diversity & Inclusion, Insight into Systems & Derivatives, Municipal Sector Analysis, Project Finance Risk Analysis and ESG. In addition, some members of the Supervisory Board attended webinars on cybersecurity, gender balance, the post-pandemic agenda and governance assessments.

The members of the Managing Board also attended various training programmes and/or sessions in 2021, including in the areas of sustainable finance, board dynamics, corporate governance, leadership, ESG risks, credit risk assessment, EU taxonomy, integrity, diversity, market abuse, security awareness, compliance and IFRS. There were also in-depth sessions on digitalisation, biodiversity, CDD and climate objectives.

Designated new members of the Supervisory Board and Executive Committee follow an introduction programme. This programme covers bank-specific lending and funding topics, financial aspects including the regulatory framework, risk management topics, compliance, integrity and IT infrastructure and security.

OTHER BUSINESS

Reappointments

Reappointment of Toon van der Klugt as of the 2022 AGM

The proposed reappointment has been communicated to both the regulator and the representative of the shareholder water authorities, as well as to the Ministry of Finance. DNB/ECB announced in mid-January that it would approve the proposed reappointment of Toon van der Klugt for a period of four years. The reappointment interview with the Ministry has already taken place.

Reappointment of Melchior de Bruijne at the 2022 AGM

The Supervisory Board will put his proposed reappointment on the agenda for the 2022 AGM in view of 1 December 2022 as the date it will go into effect. His proposed reappointment has been communicated to both the regulator and the representative of the water authority shareholders and the Ministry of Finance. At the end of December 2021, DNB/ECB announced that it would approve the proposed reappointment of Melchior de Bruijne for another period of four years. The reappointment interview with the Ministry has already taken place.

Appointment of Ard van Eijl at the 2022 AGM

In 2018, the Supervisory Board decided to split the combined CFRO role within the Executive Committee into a CFO and CRO role. The CRO was subsequently added to the Executive Committee as a non-statutory member as of 1 November 2018. The CRO is responsible for the bank's comprehensive risk management, which covers both financial and non-financial risks. Since 1 July 2021, his portfolio has been broadened by adding compliance. With this substantive strengthening of the CRO's role, the Supervisory Board wishes to change the non-statutory role of the CRO into a statutory role. This means that the Supervisory Board will propose his appointment as Statutory member of the Managing Board for a term of four years to the General Meeting in April 2022, effective from the date of the AGM.

Word of thanks

The Supervisory Board would like to express its gratitude for all the efforts made by both the staff and the Executive Committee in the past year. 2021 was also marked by the COVID-19 pandemic, which demanded everyone's flexibility, resilience and perseverance. Last year also began with an incident of fraud that came as a shock to us all. In response, mitigating measures to strengthen the controls of the internal organisation were implemented as part of a bank-wide change programme. This has required additional effort from all employees.
The Supervisory Board would therefore like to reiterate its pride in the efforts made by everyone, which have resulted in the bank's continued readiness to serve its clients and fulfil its social role.

The Hague, 18 March 2022

Supervisory Board
Joanne Kellermann
Petra van Hoeken
Toon van der Klugt
Frida van den Maagdenberg
Annette Ottolini
Lex van Overmeire
Manfred Schepers

REMUNERATION REPORT

Our remuneration policy reflects our social role as a bank of and for the public sector. We implement a moderate and sustainable remuneration policy that fits our bank's strategy, low risk profile and risk appetite. As a result, our remuneration policy contributes to the realisation of our long-term objectives aimed at long-term value creation. Our 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 our Managing Board.

Fixed remuneration

Our Managing Board's remuneration policy was recently revised at the Annual General Meeting in 2020. The decision was made during this meeting to abolish the variable remuneration of members of the Managing Board with retroactive effect from 1 January 2019. The maximum variable remuneration of 15% applicable at the time was converted to a fixed supplement of 11.1% on top of the fixed remuneration. This fixed supplement is not pensionable.

Under the remuneration policy, statutory members of the Managing Board appointed on or after 16 April 2020 may receive a maximum salary of €283,022. Indexation of this maximum salary will take place annually in accordance with the structural salary adjustment, as stated in the Collective Labour Agreement for the Banking Sector. In formulating the 2020 remuneration policy, the Supervisory Board also weighed the opinions of the members of the Managing Board regarding the amount and structure of their remuneration. At the time, the members of the Managing Board indicated that they agreed with the proposed 2020 remuneration policy.

Variable remuneration

As mentioned above, the variable remuneration of members of the Managing Board has been abolished 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. Therefore, the Supervisory Board has for the last time assessed the long-term targets of the Managing Board from 2018 in connection with whether or not the deferred component of the variable remuneration of statutory members of the Managing Board will be made payable (in full or in part).

Pensions

Our Managing Board members participate, as do our employees, in a group pension plan. The plan has been administered by a premium pension institution (PPI) as of 1 January 2020.

As of that date, a new five-year contract has been concluded whereby the old defined benefit scheme has been replaced by a defined contribution plan. For this, we pay, as an employer, a monthly premium to the administrator with which the employee saves for a pension benefit on his/her date of retirement. We have agreed on compensation for the non-contributory entitlements of employees determined as at 31 December 2019, which will not change in the future. The new pension plan – like the old scheme – requires participants to make a contribution. For salaries above €112,189 (being the pensionable income ceiling of €100,000 indexed since

2015), we offer as an employer a net pension scheme. The employer's pension contribution above the ceiling of €112,189 is based on an age-dependent graduated scale over the pensionable salary. In addition, a 3% employee contribution is deducted.

Other terms and conditions of employment

Our Managing Board members all have access to an (electric) car. The car scheme for the Managing Board stipulates that the bank will pay all costs related to the purchase and use of this car. The additional tax liability is carried by our Management Board members. Furthermore, the same terms of employment apply to members of our Managing Board as to our employees.

REMUNERATION MANAGING BOARD

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, applies to the chair of the Managing Board. An indexation of 1.4% took place in 2021 as at 1 July, equal to the structural income adjustment on the basis of the CLA. After processing the conversion of the variable remuneration into a fixed allowance, this amount is €283,026 as at 1 January 2021 (including indexation 2021: €285,007). For the other members of the Managing Board, a maximum of 85% of this amount applies: €240,571 as at 1 January 2021(including indexation 2021: €242,255).

Frenk van der Vliet, who has been employed as a Managing Board member since 1 January 2012, is still 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 processing the conversion of the variable remuneration into a fixed allowance, this amount is €253,248 as at 1 January 2021 (including indexation 2021: €255,020).

REMUNERATION OF THE MEMBERS OF THE MANAGING BOARD

(in thousands of euros)	Fixed remuneration	Payment of the deferred component of the 2018 variable remuberation	Pension contribution[1]	Other[2]	Total
2021					
Lidwin van Velden	285	12	40	64	401
Melchior de Bruijne[3]	242	N/A	34	37	313
Frenk van der Vliet	255	11	37	54	357
Total	**782**	**23**	**111**	**155**	**1,071**

1) including compensation DC scheme 2020: for Lidwin van Velden €5,000, for Melchior de Bruijne €6,000 and for Frenk van der Vliet €6,000.
2) 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, €6,000 for Melchior de Bruijne and nil for Frenk van der Vliet, iii) a contribution for the net pension scheme: for Lidwin van Velden €33,000, for Melchior de Bruijne €17,000 and for Frenk van der Vliet €22,000, 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 €11,000, v) as of 31 December 2019, compensation has been granted for certain non-contributory entitlements of Managing Board members, which will not change in the future. In 2021, this amounted to €13,000 for Lidwin van Velden, €9,000 for Melchior de Bruijne and €8,000 for Frenk van der Vliet. vi) the flat-rate contribution based on the additional tax for cars is €3,000 for Lidwin van Velden, €2,000 for Melchior de Bruijne and €10,000 for Frenk van der Vliet.
3) Joined NWB Bank on 1 December 2018.

(in thousands of euros)	Fixed remuneration	Payment of the deferred component of the 2017 variable remuberatio	Pension contribution[1]	Other[2]	Total
2020					
Lidwin van Velden	283	-[3]	40	64	387
Melchior de Bruijne[4]	241	N/A	34	37	312
Frenk van der Vliet	253	-[3]	36	52	341
Totaal	**777**	**-**	**110**	**153**	**1,040**

1) including compensation DC scheme 2020: for Lidwin van Velden €5,000, for Melchior de Bruijne €6,000 and for Frenk van der Vliet €6,000.
2) 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 and €6,000 for Melchior de Bruijne, iii) a contribution for the net pension scheme: for Lidwin van Velden €33,000, for Melchior de Bruijne €17,000 and for Frenk van der Vliet €23,000, 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 €11,000, v) as of 31 December 2019, compensation has been granted for certain non-contributory entitlements of Managing Board members, which will not change in the future. In 2020, this amounted to €13,000 for Lidwin van Velden, €9,000 for Melchior de Bruijne and €7,000 for Frenk van der Vliet. vi) the flat-rate contribution based on the additional tax for cars is €3,000 for Lidwin van Velden, €2,000 for Melchior de Bruijne and €9,000 for Frenk van der Vliet.
3) In connection with the fraud incident in early 2021 and the resulting financial loss suffered by the bank, Lidwin van Velden and Frenk van der Vliet have waived payment of the deferred component of their 2017 variable remuneration.
4) Joined NWB Bank on 1 December 2018.

Deferred component of 2018 variable remuneration

In February 2022, the Remuneration and Appointment Committee compared our bank's actual results with the long-term targets formulated in 2018. The most important targets were as follows:

- Standard & Poor's and Moody's credit ratings for NWB Bank must equal the sovereign rating of the State of the Netherlands
- achieve the CSR objectives (including the issuance of ESG Bonds)
- develop a strong position in the market for (semi-) government financing

This comparison has shown that these long-term targets have been fully achieved: our bank's credit ratings have remained equal to those of the State of the Netherlands; at more than €19 billion, our bank is still the largest issuer of ESG bonds in the Netherlands and, in addition to the public water sector, we also finance municipalities, provinces and institutions under the guarantee of (local and regional) governments, such as housing associations and healthcare institutions. Since 2019, we have added renewable energy projects, regional grid operators and heating networks as part of our bank's strategy to contribute to the transition to a climate-neutral and circular economy. The Remuneration and Appointment Committee also assessed the development of market shares from 2018 to 2021 as positive. On recommendation of the Remuneration and Appointment Committee, the Supervisory Board therefore determined that the long-term targets for payment of the deferred component of the variable remuneration for 2018 (see remuneration overview for 2021) were fully reached.

EMPLOYEE REMUNERATION POLICY

The employee remuneration policy applies in full to all of our employees, irrespective of their positions or job scales. As an employer, we apply the Collective Labour Agreement (CLA) for the Dutch banking industry. The fixed remuneration for our employees 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.

In 2020, the employee remuneration policy was evaluated. The new remuneration policy for employees incorporates the changes to the pension scheme as of 2020 and also postpones the evaluation period from two to five years. This is in line with the five-yearly evaluation of the remuneration policy for the Management Board and Supervisory Board.

Pensions

The group pension plan, in which all employees and Managing Board members participate, has been administered by a premium pension institution (PPI) as of 1 January 2020.

As of that date, a new five-year contract has been concluded whereby the old defined benefit scheme has been replaced by a defined contribution plan. As an employer, we pay a monthly premium to the administrator for this with which the employee saves for a pension benefit on his/her retirement date. We have agreed on compensation for the non-contributory entitlements of employees determined as at 31 December 2019, which will not change in the future. The new pension plan – like the old scheme – require participants to make a contribution. The bank offers a net pension plan for salaries above €112,189 (which is the indexed cap on pensionable income to €100,000 since 2015).

Other terms and conditions of employment

Our employees receive various secondary terms of employment, such as the reimbursement of study expenses, a bicycle plan, a staff mortgage loan discount plan and supplementary disability insurance.Employees whose positions justify participation in our bank's car scheme may do so or claim reimbursement under the scheme.

Annual total compensation ratio

We determine the pay ratio between the chair of the Managing Board 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 (excluding other members of the Managing Board). The total remuneration comprises the fixed remuneration and service costs, whereby the calculation for 2020 and 2021 includes all pension contributions.

The fixed remuneration of our employees and members of the Managing Board in 2021 comprised 12 monthly salaries, 8% holiday allowance and a 13th month's salary payment. Employees and members of the Managing Board will also receive an allowance of 10.745% and 11.1% respectively compensation for the abolition of the variable remuneration. The service costs consist of the components 'defined contribution scheme costs up to €112,189 minus the employer's contribution', 'the employer's contribution above €112,189 minus the employee's contribution', a 'pension contribution (2.8% contribution on pensionable salary 2021)', 'pension contribution for the harmonisation of the pension scheme as of 1 January 2015', 'compensation defined contribution scheme' and 'extra allowance for the defined benefit scheme'.

Based on these principles, the pay ratio between the chair of the Managing Board and the median of our bank's other employees for 2021 is 3.9 (2020: 4.0). For 2020, in any case, we can say that compared to most other state-owned enterprises and banks, our remuneration ratio is low.

SUPERVISORY BOARD REMUNERATION

Effective 1 January 2017, the following remuneration structure (excluding VAT) applies to our Supervisory Board members, with the amounts being subject to indexation in line with the CLA for the banking industry (1.4% as at 1 July 2021 and 2.5% as at 1 January 2020):

(in thousands of euros)	2021	2020
Chair + committees	39	39
Deputy chair + Audit Committee + Risk Committee	24	24
Member + Audit Committee + Risk Committee	24	24
Member + Remuneration and Appointment Committee	24	24

These amounts include expense reimbursements and exclude travel expenses and VAT.

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

The remuneration of individual Supervisory Board members in proportion to their period of engagement was as follows:

(in thousands of euros)	2021	2020
Age Bakker	-	11
Joanne Kellermann	39	28
Maurice Oostendorp	7	24
Petra van Hoeken	24	24
Toon van der Klugt	24	24
Frida van den Maagdenberg [1]	24	24
Annette Ottolini	24	24
Lex van Overmeire	8	-
Manfred Schepers	24	24
Total	**174**	**183**

1) Frida van den Maagdenberg is transferring her remuneration to the Academic Medical Centre, where she is a member of Executive Board.

The above amounts exclude travel expense allowances. In 2020, VAT was calculated on the remuneration of Supervisory Board members. In 2021, following a policy rule published on 28 April 2021, it has become clear that Supervisory Board members do not (or no longer) have to charge VAT on the compensation they receive. Therefore, no VAT has been included for 2021.

CORPORATE GOVERNANCE

As a bank of and for the public sector, we have a special responsibility to society. This means our bank should foster a strong financial position and practise transparency in our corporate governance. In doing so, we take into consideration the interests of all stakeholders. In this context, we not only apply – taking into account the specific character of our bank – the Dutch Corporate Governance Code. We also apply 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 Authority) Guidelines on internal governance, the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, and the BIS Guidelines: Corporate governance principles for banks.

Our Supervisory Board and Managing Board bear responsibility for ensuring an effective corporate governance structure at the bank 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 Managing Board, the Supervisory Board 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. Our bank's shares are not listed, which is why we are not required by law to apply the Dutch Corporate Governance Code. However, we have elected to apply the code nevertheless, taking account of a specific feature, namely that shares in our bank 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 Policy Document on State-Owned Enterprises (Nota Deelnemingenbeleid Rijksoverheid).

The principles and best practice provisions relating to the one-tier governance structure and depositary receipts for shares, respectively, have been excluded on account of our bank's two-tier structure and the fact that no depositary receipts are issued for our shares. The principle of best practices regarding the disclosure and provision of information to the Annual General Meeting has not been fully formalised due to the fact that we do not have listed shares. As part of this provision, we have not established a policy on bilateral contacts with shareholders. Nor do we have a formalised policy stating that nominated Managing Board and Supervisory Board members should be present at the 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. We maintain direct contact with our shareholders and/or their representatives throughout the year. Regarding the remuneration policy, given the absence of variable remuneration, we did not perform any scenario analyses. Finally, we opted to use the criteria under the EBA Guidelines in respect of the independence of our Executive Committee and Supervisory Board members.

SUPERVISORY BOARD

The Supervisory Board and its committees operate according to charters. These charters contain, among other things, rules governing its composition, the division of duties and working methods. In addition, the charters contain provisions on conflicts of interest and dealing with the Executive Committee and the shareholders. During the annual review of the bank's corporate governance on the laws, regulations and guidelines, the Supervisory Board introduced minor adjustments to the charters of the Managing Board, Supervisory Board, Risk Committee and Remuneration and Appointment Committee in late 2021 (in compliance with the entry into force of CRD V, the revised EBA Guidelines and the new law on gender balance in middle and top management in large companies). In addition, minor adjustments were also made to several internal regulations and policy documents.

Composition and profile

The Supervisory Board consists of seven members, three of which are men and four women, which results in a male/female ratio of 43%/57%. Furthermore, each member of the Supervisory Board has a specific expertise and background necessary for the fulfilment of his/her role on the board. The board thus complies with the Diversity and Inclusiveness policy that was revised in 2021 to meet the Supervisory Board's aim of having a mixed composition through diversity in gender (at least 30% male and 30% female), expertise, background and experience. On 10 September 2021, Lex van Overmeire was appointed as member of the Supervisory Board during an Extraordinary General Meeting.

For members of 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 in the annual review of our corporate governance in late 2021. 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. 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 Joanne Kellermann (chair), Petra van Hoeken and Manfred Schepers have in-depth financial expertise, a background in banking, knowledge of the international money and capital markets, experience with prudential supervision and knowledge of risk management. Lex van Overmeire has extensive experience in accountancy in the financial/banking services sector and has gained experience as a professional supervisor, both in the financial sector and in the public and social domain. 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 both have general experience with administration in the semi-public sector and extensive knowledge of 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.

In 2021, a review was carried out of the composition and distribution of the Supervisory Board seats. The Board opted to appoint Toon van der Klugt as deputy chair[5] and Annette Ottolini as chair of the Remuneration and Appointment Committee. The composition of the other committees remains unchanged.

Information from external experts

The Supervisory Board has the option of consulting external experts if warranted by the fulfilment of its duties. In 2021, the Supervisory Board engaged an external expert to advise on its self-evaluation. The Supervisory Board consults internal and external experts for lifelong learning courses. Information is also obtained by attending meetings between the Managing Board and the Works Council.

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 in that respect.

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. The Supervisory Board also considers that best practice provisions 2.1.7 to 2.1.9 of the Dutch Corporate Governance Code have been complied with.

The overall profile for the composition and appointment of Supervisory Board members sets requirements in the area of independence.

EXECUTIVE COMMITTEE

Our bank is managed by the Executive Committee.

The General Meeting of Shareholders appoints statutory members of 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). The ExCo comprises four members: statutory members Lidwin van Velden (CEO), Melchior de Bruijne (CFO), Frenk van der Vliet (CCO) and non-statutory member Ard van Eijl (CRO). The CRO is responsible for the bank's overall risk management (including compliance since July 2021), which includes both financial and non-financial risks. The move to a fully equal, formal position within the Executive Committee underlines the importance the Supervisory Board attaches to risk management. The Supervisory Board will therefore nominate the CRO for appointment as a statutory member of the Managing Board at the Annual General Meeting in April 2022.

The Executive Committee operates in accordance with the Executive Committee Charter. During the annual review of laws, regulations and guidelines, the ExCo Charter was amended in a number of respects late last year, including the guarantee of independence, a meticulous decision-making process, gender diversity and ESG risk. The charter contains rules on the division of tasks, working methods and decision-making, and provisions governing conduct and culture, dealings with and methods for providing information to the Supervisory Board, the remuneration policy and conflicts of interest.

Like the Supervisory Board, the Managing Board must be composed in accordance with the diversity policy. This policy, which was expanded in late 2021, is based on the principle of a balanced and inclusive composition, including diversity in gender, knowledge and experience. In terms of gender, both the Executive Committee and management (and earlier the Supervisory Board and Managing Board) are aiming for a composition that is at least 30% male and 30% female.

5) Until his scheduled retirement on 15 April 2021, Maurice Oostendorp held the position of deputy chair. Toon van der Klugt will stay on as member of the Remuneration and Appointment Committee.

With the intended (re)appointment of the CRO as statutory director, the male/female ratio in the Managing Board is 75%/25%, which falls just short of the target. At 69%/31%, the male/female ratio in the management team meets the newly set target. 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 or other position, the member in question will not participate in the relevant discussions and decision-making processes. By late 2021, the Supervisory Board included the reporting of any conflicts of interest as a standard agenda item at the start of each meeting, at both its meetings and at committee meetings, so that possible conflicts of interest can be explicitly considered at every meeting. In doing so, the Supervisory Board emphasises that no individual transactions are discussed during the Supervisory Board's meetings. In the past year, one situation occurred in which potential conflicts of interest could have arisen. The Supervisory Board member in question did not participate in the discussion.

FUTURE-ORIENTED BANKING

The Future-Oriented Banking package, launched by the Dutch Banking Association (NVB) in 2014, consists of three sections: the Social Charter, the Dutch Banking Code and the Code of Conduct. This package clearly shows the banking sector's intentions to implement service-oriented and sustainable banking practices. 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;
- a prudent, restrained and sustainable remuneration policy .

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

NWB Bank fully acknowledges the significance of the Social Charter, the Dutch Banking Code and the Code of Conduct and complies with them.

RULES OF CONDUCT AND THE BANKER'S OATH

From 1 April 2015, all of our employees and external advisers who have worked for the bank for more than three months are required to take the banker's oath (which includes the related Rules of Conduct and a disciplinary system). Upon taking and signing the banker's oath, external and internal employees must abide by the Rules of Conduct and the disciplinary rules.

The Rules of Conduct comprise the following aspects:

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

NOTES ON OTHER FOCUS AREAS

The following paragraphs address several focus areas concerning corporate governance. They also address whether, and if so in what way, further steps have been taken in the 2021 reporting period compared with 2020.

Works Council

Our 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 HR department. In addition to those meetings, there were two consultative meetings between the Works Council and a member of the Managing Board (and HR), at which – in line with Article 24, paragraph 2 of the Works Councils Act – there was a delegation from the Supervisory Board present.

The Works Council's term of office expired at the end of 2021. After an appeal by the Works Council, four enthusiastic employees - in addition to two current members - applied to join the Council on 1 January 2022 for a three-year term. This meant that no elections had to be called. In view of the staff increase, the Works Council has also been expanded from five to six members.

Controlled and ethical conduct of business

We attach great value to our reputation as a solid and respectable bank for the public sector. Checks and balances and integrity play an important role in our bank's control mechanism. Our bank's Managing and Supervisory Board members are aware that they set an example for all 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.

NWB Bank's culture is characterised by professionalism, engagement, short lines of communication and openness. Our bank has a whistle-blower scheme, enabling employees to report any (potential) suspicions of wrongdoing or irregularities in or outside the organisation. 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.

Just as in previous years, in 2021 our bank devoted attention to the exchange and sharing of information during 'brown bag' lunch sessions. These are an initiative of NWB Young Professionals. During these sessions, a staff member or guest speaker gives a presentation about a current or interesting topic. In 2021, meetings took place about the front office, biodiversity, sustainable finance legislation, nature and the environment, and the 'Circular Road' partnership.

Long-term value creation

We are alert to market and other developments and to changing client and stakeholder needs. Where possible, we respond to them by providing solutions, for example, in the form of new products or services or by sharing knowledge. We see this as part of our social role as a promotional bank. Moreover, our bank is cost-efficient, and we use our AAA/Aaa ratings to raise funds for appropriate financing of the public sector in an inexpensive and sustainable way.

In 2018, we adopted a medium-term strategy for 2019-2023, one of the objectives of which is to meet the changing needs of our clients. In 2021, the Supervisory Board discussed progress regarding the strategy with the Executive Committee in its annual strategy session, in which new quantitative goals were added to the strategy for the period up to 2026. Just as in previous years, in the context of the strategy of 'the sustainable water bank', we looked more broadly at financing organisations and projects in the public sector that have common ground with water and/or sustainability. We devoted extensive attention to national and European developments in the area of sustainability and how our bank can play an even greater role addressing sustainability challenges in the Netherlands. In addition, we issued ESG bonds again in 2021, making our bank the largest issuer of ESG bonds in the Netherlands.

Putting the client's interests first

As a promotional bank, we play a key role in providing financial services to the Dutch public sector. We can effectively fulfil our 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. We expect our employees to promote these core values while carrying out their duties.

The bank lends high priority to account management aimed at borrowers and product development. Our approach centres on bridging the knowledge gap between the public sector and the financial world. To achieve this, we organise educational client events, issue daily newsletters, share market information with our clients through the NWB Portal and participate in seminars by sending speakers. At the individual client level, knowledge exchange takes place through discussions with our clients and visits to their offices. The NWB Portal is not only a platform for sharing information with clients, but it also enables them to carry out financial analyses of their loan portfolios.

Compliance and integrity

The compliance function aims to promote and ensure compliance with laws and regulations, as well as with the internal procedures and rules of conduct that are relevant to the organisation's integrity and associated reputation.

In 2021, the compliance function was organisationally placed under the CRO and is thus part of the broader Risk & Compliance team. This means even more explicit use can be made of the synergy between the various disciplines within these second-line functions when managing the bank's risks. In addition, Compliance reports directly to the Managing Board and has direct access to the Supervisory Board. Compliance reports regularly to the Risk Committee. The compliance function's tasks are laid out in the Compliance Charter, which is updated every year.

Last year, we continued our work to strengthen the SIRA methodology, which began in 2020. SIRA enables us to identify our integrity risks and evaluate to what extent these risks can be controlled. Where necessary, we formulate action points that are monitored by the bank's Non-Financial Risk Committee. The Managing Board and management are closely involved in this intensive process. The Managing Board and the Supervisory Board are informed through the resulting report to facilitate the targeted management of integrity risks.

Furthermore, in 2021, our bank's policies and procedures, including the CDD Policy and Procedure, were updated and the compliance function drafted a Conflict of Interest Policy. The purpose of this new policy, which applies to all employees, is not to introduce new obligations but to bring together the existing principles and standards for managing the risk of a conflict of interest and to help employees who suspect a (potential) conflict of interest within or related to our bank, to encourage them to disclose it.

Compliance performs various monitoring activities that provide the organisation with information on the degree of control of compliance risks. In 2021, the effective application of the CDD Policy & Procedure and the bank's Insider Regulation were monitored, among other things.

In 2021, Compliance once again provided in-house training courses on various subjects, including the Money Laundering and Terrorist Financing (Prevention) Act, CDD and transaction monitoring alert handling. During 'Integrity Week', the bank, organised an extensive bank-wide awareness activity on the subject of integrity, in which an external speaker used dilemmas to give our employees an insight into their own thinking and acting with integrity.

In accordance with the annual audit plan, the internal audit department carries out compliance audits. These audits evaluate how the compliance unit monitors whether procedures and codes of conduct are effective and whether they are being applied correctly in the organisation and how the department communicates about this to its stakeholders.

Finally, Compliance is closely involved in our bank's change programme.

INTERNAL AUDIT

NWB Bank's internal audit function lies with the Internal Audit Department (IAD). The mission of the IAD is to improve and protect the value of our bank 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 our activities. The IAD helps us to achieve our objectives by evaluating and improving the effectiveness of our governance, risk management and control processes based on a systematic and disciplined approach.

At the request of the Managing Board, head of 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 Internal Audit Charter, which has been approved by the Supervisory Board. Head of 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. Head of 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 addition, the head of IAD has a standing invitation as an observer at the meetings of the Asset & Liability Committee, Credit Committee and Non-Financial Risk Committee and the Steering Group meetings of our bank's change programme.

In 2021, the IAD provided input for 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 International Professional Practices Framework of the Institute of

Internal Auditors. These have been further developed into an internal quality assurance system.

EXTERNAL AUDITOR

Like the internal auditor, the external auditor (EY) attended all meetings of the Audit Committee and the Risk Committee. The external accountant was also present at the Supervisory Board meeting in March, during which the annual figures were discussed. As the responsible external auditor is subject to a mandatory five-year rotation, René Koekkoek, partner at EY, became responsible for the statutory audit of NWB Bank from the financial year 2021 onwards. The Audit Committee held one separate meeting in 2021 with the external auditor. In addition, the annual meeting of the Audit Committee and Risk Committee with the head of IAD and the external auditor took place.
In 2021, as in 2020, EY audited the annual accounts of NWB Banks in its capacity as external auditor.

RISK MANAGEMENT

Our strategy makes high demands on our risk management and the design and maintenance of adequate internal controls. We apply an organisation-wide approach to risk management and control. This chapter provides insights into our bank's risk taxonomy and how these risks may manifest themselves. The taxonomy is divided into financial risks, non-financial risks and other risks.

Financial risks are divided into credit risk, interest rate risk, market risk and liquidity risk. The only non-financial risk is operational risk while other risks are subdivided into strategic risk, environmental, social and governance risk, and reputation risk. We try to continuously improve our understanding and management of all these risks.

CREDIT RISK

We define credit risk as the potential impact on earnings/capital due to a deterioration in the creditworthiness of debtors/counterparties. Our risk appetite for this risk is low. Credit risk is divided into the following sub-types:

Subtype	Definition
Credit default risk	Possible impact on profit/capital due to debtors defaulting on their obligations.
Credit migration risk	Possible impact on profit/capital due to deterioration of creditworthiness based on internal/ external ratings of debtors or guarantors.
Counterparty credit risk	Possible impact on profit/capital due to counterparties not fulfilling their obligations in derivative transactions.
CVA risk	The risk of mark-to-market losses in Credit Valuation Adjustments (CVA) on bilateral derivative transactions.
Settlement risk	The risk that during the settlement of a transaction, the counterparty does not fulfil its obligations while NWB Bank fulfils its own.
Credit concentration risk	The risk of significant credit loss arising from a concentration of exposures on a small group of customers, a group of customers with similar default characteristics or financial assets with high levels of correlation.
Country risk	The risk that a counterparty or guarantor cannot meet its obligations because of political, social, economic or other events in the country in which it is established.

Our policy is to maintain the very high creditworthiness of our loan portfolio. We mainly grant loans to governments and other institutions that are guaranteed by the local government. We also grant loans to drinking water companies, sustainability projects and we finance PPP projects in which the government acts as a principal. In addition, we grant loans to other client groups in the public sector, including university medical centres and regional network operators.

As part of our liquidity portfolio, we purchase a limited number of bonds issued by governments in Western European countries and international organisations, as well as bonds backed by Dutch residential mortgages with an NHG guarantee. Dutch residential mortgages with NHG coverage serve as collateral. We apply the same quality requirements to these bonds as we do to lending in the Dutch public sector.
Finally, we enter into transactions with banks and pension funds, including currency and interest rate swaps, which create counterparty credit risk.

In 2021, we further tightened our credit risk management policy around the individual client assessments and the monitoring of solvency-free loans. Decisions on weighted loans are made in the Credit Committee based on a credit proposal from the Public Finance department and an independent risk assessment from the Risk Management department.

Last year, as part of its supervisory task, the ECB conducted an on-site inspection of credit risk management of both weighted and unweighted (solvency-free) items. The final findings were reported to us in January 2022 and we are working on an adequate follow-up.

In 2021, as in all previous years, we did not experience a credit loss. The ongoing COVID-19 pandemic did not change this. However, the crisis did put more pressure on the public sector in the Netherlands, where we have a concentration risk because of our particular business model. The consequences of the pandemic in general are closely monitored by the Credit Committee.

Due to both the public nature and related solvency of the vast majority of our bank's credit relationships, the credit risk of the loan portfolio is limited. This is also reflected in our robust capital ratios. The total gross balance sheet value (including irrevocable commitments and contingent liabilities), without taking into account risk-mitigating measures, amounted to €101 billion at the end of 2021 (2020: €111 billion).

We use derivatives to manage interest rate and currency risk. To minimise the counterparty credit risk associated with these derivatives, we only transact with counterparties with at least a single-A rating. This applies if these derivatives are not centrally cleared. We have also put restrictions in place to limit the risk per counterparty with respect to derivatives.

The market values of these derivatives are hedged by means of Credit Support Annexes (CSAs), for the most part without any thresholds and with a daily exchange of cash as collateral. Our policy is to make agreements with counterparties within the ISDA framework. These agreements concern at least ISDA-schedules, and CSAs for which netting agreements are applicable.

INTEREST RATE RISK

We define interest rate risk as the current or future risk to both earnings and the economic value of an institution stemming from adverse interest rate movements affecting interest rate-sensitive instruments, including gap risk, basis risk and option risk. Our risk appetite for this risk is medium. Interest rate risk is subdivided into the following subtypes:

Subtype	Definition
Gap risk	The risk arising from the term structure of interest-rate-sensitive instruments due to differences in the timing of their interest rate changes, including changes in the term structure of interest rates that occur consistently across the yield curve (parallel risk) or differ periodically (non-parallel risk.
Basis risk	The risk arising from the effect of relative changes in interest rates on interest-sensitive instruments that have similar maturities but are priced on the basis of different interest rate indices. Basis risk results from incomplete correlation in the matching of interest earned and paid on different interest rate-sensitive instruments, with otherwise similar characteristics with respect to interest rate changes.
Option risk	The risk arising from options (embedded and explicit), where the institution or its customer can change the level and timing of their cash flow. In particular, this relates to the risk arising from interest rate-sensitive instruments where the holder is almost certain to exercise the option when it is in their financial interest, and the risk arising from flexibility implicit in or provided by the terms and conditions of interest rate-sensitive instruments where changes in interest rates can lead to a change in the client's behaviour.
Credit spread risk from non-trading book activities (CSRBB)	The risk arising from changes in the market's perception of the price of credit risk, liquidity premium and possibly other components of credit risk instruments that lead to fluctuations in the price of credit risk, liquidity premium and other possible components, which is not explained by IRRBB or by expected default risk.
Refinancing risk	The risk that an increase in the refinancing costs of the liabilities when they become repayable is not offset by corresponding asset income.

Risks due to fluctuations in interest rates arise from differences in the interest rates and maturity terms of funds lent and borrowed. We maintain a prudent policy with regard to these risks. The policy serves to manage the interest rate risk by concluding interest rate derivatives for both the asset and liability sides of the balance sheet. In doing so, we commit ourselves to, at predetermined moments, exchange the difference between the fixed and variable interest rates, calculated on the basis of an agreed principal amount.

We are, however, prepared to take a so-called strategic interest rate risk position in order to achieve a result aimed at realising the standard return on equity as agreed upon with our shareholders. This standard return is based on the yield of a 10-year rolling investment in a 10-year Dutch government bond, plus a surcharge appropriate to NWB Bank's profile. This standard return is used as input for our Fund Transfer Pricing model, which is used for new lending. The current strategic position is independent of any view on interest rates and is determined on a quarterly basis. Sound policies, supplemented by a suitable management system that takes into account the effective interest rate of the financial instruments, together form the basis for calculating, monitoring and controlling interest rate risks. The Asset & Liability Committee (ALCO) determines the extent of the risks within the set frameworks. For management purposes, we use an interest rate gap analysis (see below), risk measures such as (spread) DV01, Earnings at Risk and scenario analyses. Furthermore, the outcomes of positions taken are analysed using profit forecasts, interest margin analysis and performance analysis. This management information is also important for decision-making processes and monitoring by the ALCO.

Part of interest rate risk involves refinancing risk. This risk stems from one of the most important characteristics of a traditional banking business: maturity transformation. In our case, public sector clients mainly ask for funding with a relatively long maturity. This is generally related to the long-term investments they make. Although our bank is in a position to attract funding with relatively long maturity as well, we do recognise the impact of a potential increase in the funding spread on interest income if there is a maturity mismatch between funding and lending. We apply a limit system for this, which is described in more detail in the financial statements.

MARKET RISK

We define market risk as the risk of losses in 'on' or 'off' balance sheet positions resulting from an adverse change in market prices. Our risk appetite for this risk is low. One subtype is recognised within market risk:

Subtype	Definition
FX risk	The possible impact on profit/capital due to changes in exchange rates

The policy is aimed at structurally excluding exchange rate risks for both issued and withdrawn funds. Managing the currency risk is especially important for the funds we borrow. We largely withdraw funds in foreign currencies. The resulting currency risks are immediately covered in full by currency swaps.

LIQUIDITY RISK

We define liquidity risk in terms of the potential impact on earnings/capital if repayment obligations cannot be met. Our risk appetite for this risk is low. Two subtypes are recognised:

Subtype	Definition
Funding liquidity risk	The risk that NWB Bank cannot meet its repayment obligations. This risk also explicitly covers concentration risk within liquidity (e.g. a concentration of liquidity sources).
Market liquidity risk	The risk of not being able to trade on the market at a reasonable price with immediate effect.

Our bank has an AAA/Aaa credit status, which is equal to that of the State of the Netherlands. With this credit status, we are more than able to meet current and future market liquidity needs under normal circumstances. This need is almost entirely covered by the international money and capital markets and does not attract deposits from consumers. When raising funds, we take into account diversification across geographical markets, investors, currencies, funding programmes and instruments. In the unlikely event of a stagnation in the money and capital markets, we always have ample and sufficient opportunities to repay maturing loans and to finance new loans. We have more than sufficient liquid assets and collateral, and a large part of our portfolio is eligible as DNB collateral. For liquidity purposes, in addition to a substantial liquidity buffer, we also hold a liquidity portfolio of interest-bearing securities, including bonds issued by, or guaranteed by, Dutch governments, bonds issued by international organisations and multilateral development banks, and covered bonds issued by Dutch banks.

OPERATIONAL RISK

We define operational risk as the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. Our risk appetite for this risk is low. The following subtypes, in which integrity risk is embedded, are recognised:

Subtype	Definition
People risk	The risk of damage arising from inadequate knowledge, experience, availability or performance of personnel as a result of inadequate personnel management and/or damage arising from acts that are not in accordance with labour, health and safety laws and regulations, or arising from the payment of personal injury claims or from diversity/discrimination incidents.
Fraud risk	The risk of damage as a result of a) acts intended to defraud, misappropriate property or circumvent laws, regulations or internal policies with the involvement of internal parties and/or third parties and/or b) exceeding authority when entering into, approving or not reporting transactions, or misdeclaring positions and/or c) intentional damage to systems (hardware and/or software) by internal staff as a result of unauthorised activities or theft of data. (integrity risk: fraud).
Physical security & safety risk	The risk of loss of or damage to physical property and/or persons as a result of wilful misconduct, hostility, terrorism or the like which is not motivated by profit, or as a result of a natural disaster or other events, such as accidents.
Business continuity risk	The risk of damage due to impaired availability/resilience of buildings, people, processes, systems, products, services due to natural disasters, power failures, terrorism or other events and/or failures of the availability and/or continuity of solutions, and/or disaster recovery (e.g. fallback recovery data centre) as planned by IT when triggered in response to an incident.
Transaction processing risk	The risk of loss arising from inaccurate, incomplete or untimely processing of transactions, resulting in payment and/or customer service processes not being delivered effectively.
Technology risk	The risk of damage due to a) a business disruption or system failures (hardware failures, software failures and bugs, disruptive and destructive cyber-attacks) and/or b) inadequate capacity management and/or c) execution failures in IT processes including operation, architecture, development or implementation.
Conduct risk	The risk of loss arising from events relating to the unintentional or negligent failure to meet professional obligations to specific clients, and/or due to the nature or design of a product, and/or collusion and conflicts of interest, and/or inappropriate business or market practices, and/or inappropriate governance structures, and/or inappropriate, unethical or unlawful conduct by management or employees. (Integrity risk: conflict of interest and socially unacceptable behaviour.)
Legal risk	Legal risk refers to the risk of damage resulting from: a) failure to comply with legal responsibilities and/or b) unfavourable interpretation and/or unenforceability of contractual provisions.
Financial crime risk	The risk of damage resulting from crimes such as money laundering, terrorist financing and circumvention of sanctions, bribery and corruption, market abuse or insider trading. (Integrity risk: circumvention of sanction regulation, money laundering, terrorist financing, corruption and bribery, tax integrity or market abuse (including insider trading).)
Regulatory compliance risk	The risk of damage resulting from intentional or negligent non-compliance with regulations, laws and other rules applicable to the services/activities of NWB Bank.
Third-party risk	The risk of loss related to suppliers and outsourced activities. This risk arises from, among other things, (a) inadequate governance in relation to outsourcing and/or (b) insufficient resilience in third-party services and/or (c) inadequate security with third parties.
Cyber & Information security risk	The risk of damage to privacy, confidentiality, integrity and/or availability of information as a result of inadequate internal IT security and/or cyberattacks. (Integrity risk: cybercrime.)

Subtype	Definition
Financial, regulatory reporting & tax risk	The risk of inaccuracies in reported (financial, legally mandated) information and the risk that the bank's reported income (or that which is yet to be reported) changes without changing the economic value of NWB Bank, and that tax legislation is not complied with in a timely, transparent and effective manner, resulting in penalties, interest and/or legal fees levied by the tax authorities on taxes arising from the bank's activities.
Data management risk	The risk of loss or flawed decision-making as a result of ineffective and inefficient management of data, data quality or data knowledge across the data lifecycle, including the acquisition, creation, processing, use, sharing, consultation, retention or disposal of data.
Model risk	The risk of damage that NWB Bank may incur as a result of decisions that are primarily based on the output of internal models, as a result of errors in the development, implementation or use of such models.

To fulfil our mission as a robust and sustainable bank serving the public sector, we have set our risk appetite for operational risks at a low level. Our internal organisation, processes and systems are designed to minimise operational incidents and related losses.

Our bank's Operational Risk Management (ORM) is organised according to the three lines of defence principle, with the first line (heads of department at Treasury, Public Finance, Back Office, ICT, Legal & Corporate Affairs, Finance & Control and HR) responsible for managing the operational risks in our primary processes. The second line supports the first line to this end, ensuring the effectiveness of risk management by adopting a framework and fulfilling an advisory and monitoring role. This second line, consisting of Compliance and Operational Risk Management, together with HR forms the ORM team that reports to the Executive Committee and the Non-Financial Risk Committee (NFRC).

The ORM team's responsibilities include the following instruments from the operational risk management framework:
- Risk control self-assessments: an annual self-assessment of the risks and effectiveness of processes and control measures of the first line. The systematic integrity risk analysis is integrated into this.
- Key risk indicators: indicators have been set up for various subcategories of operational risk in order to assess our risk management.
- Incident register and reporting: incidents are registered and reported to the NFRC, where possible measures to prevent similar incidents are identified.
- AO/IC: the processes, risks and associated key controls are laid out in a Risk & Control Framework, and are reviewed and updated annually.
- Non-financial risk report: a comprehensive non-financial risk report to the NFRC and the management team.

The Internal Audit Department (IAD) is the third line and performs an independent role within the bank. The IAD tests the management of risks related to our activities. In addition, the IAD gives advice on the structure and risk management of our bank.

Fraud assessment

Fraud risk is assessed as part of the operational risk framework. This assessment of the 'fraud risk' sub-type takes place in the context of the SIRA. The fraud risk management measures have been improved. Measures are derived from various scenarios.

Product Approval Process

The Product Approval and Review Process (PARP) is the procedure we use to decide whether to enter a new market, and/or to handle or distribute a certain new product, in terms of both our own business and risk-levels, and those of our customers. In this process, aspects of transparency and risk management are broadly assessed. New products are not brought to market without careful consideration of their associated risks by the relevant departments within the bank, alongside careful assessment of other relevant aspects. Our Executive Committee is responsible for the proper functioning of the product approval process. Each PARP is submitted to the Supervisory Board for information. If there is a material impact on the bank's risk profile or result, it is submitted for approval. Based on the annual risk analysis, the IAD checks whether the process has been designed properly, is present and is working effectively, and must inform the Executive Committee and the Supervisory Board about the results.

Information provision

To prevent failures in the provision of information, we continuously invest in improving our systems. Key words here are security, integrity, manageability and continuity. With a well-organised infrastructure and ICT organisation, as well as optimal security of ICT components, we strive to limit the consequences of possible operational failures as much as possible. To this end, adequate service and maintenance contracts have been signed for all hardware and software in use, ICT staff is continuously trained (through courses and seminars) and contracts have been signed with external parties for back-up, recovery and fall-back options. In the event of an emergency, we have an external location at which we can continue our core activities. Our bank's information security policy has been drawn up in accordance with the internationally recognised ISO-27002 (NEN) code for information security.

We have a fully integrated and reliable Management Information System (MIS). The data quality of the MIS is monitored, validated and reconciled with the financial administration on a daily basis. To minimise operational risks, all internal and external reporting is fully automated. Adjustments to the system landscape and information provision are approved by the Change Advisory Board and implemented via a controlled change process.

We have outsourced our payment traffic for customers, as well as the related supporting ICT activities. This means that certain services take place outside the company. Therefore, agreements have been made with service providers concerning management measures regarding payment traffic.

Compliance

We take our reputation as a solid bank with integrity seriously. Compliance and integrity are therefore important areas of attention within our bank. We want to leave our clients and investors feeling absolutely certain that they can use our services, or store their funds with us, safely and with peace of mind.

Supervisory Board members, members of the Executive Committee and employees have taken the bank oath (which comes with related rules of conduct and disciplinary rules), in accordance with the official rules on oaths and commitments within the financial sector, as well as the Banking Code which came into force on 1 January 2015. We also have a code of conduct that forms part of the employment contracts for our employees. This code of conduct can be found on the bank's external website.

We have a second-line compliance function with two core tasks: promoting and monitoring compliance with laws and regulations (both internal and external), and promoting integrity. In 2020, we strengthened our compliance function by increasing capacity and further fleshing out the compliance framework. A number of processes, including Customer Due Diligence and transaction monitoring, were updated in 2020, taking into account our bank's risk profile. The strengthening of the compliance function confirms how seriously we take compliance work.

Laws and regulations are increasing in both volume and complexity. And the number of rules and requirements set by regulators is also increasing. This increases the pressure on managing compliance risks. We have a regulatory team to identify and exchange information on developments in laws and regulations. The compliance function plays a coordinating role within the regulatory team.

The compliance function reports directly to the Executive Committee and has direct access to the chair of the Supervisory Board.

Legal & Corporate Affairs

Like any other banking organisation, we run legal risks. Our bank's fundamental aim is to provide high-quality financial services. By using standard contracts wherever possible, we aim to limit the legal risks for both ourselves and our clients. If necessary, we engage external advisors to address legal issues and assess transaction documentation.

STRATEGIC RISK

We define strategic risk as the risk of not achieving strategic objectives. This may arise from the pursuit of inadequate objectives, making mistakes, under-implementation of decisions, inadequate allocation of resources or from failure to respond adequately to changes in the business environment. Our risk appetite for this risk is low.

An important starting point in managing strategic risk is to maintain our bank's high-quality risk profile as reflected in our credit ratings. To be able to continue to serve our clients optimally, it is important that our credit ratings remain in line with those of the Dutch government. Our ratings depend to a large extent on the public sector profile of our shareholders and clients, combined with our strong solvency. We closely monitor external factors that may influence this. Where desired, the Executive Committee makes timely adjustments to our strategy. As a promotional bank dedicated to the Dutch public sector, it is important to respond proactively to the sector's changing needs. We are also sensitive to changes in government policy regarding the financing of the Dutch public sector. We maintain continuous, constructive dialogue with our stakeholders on this issue. Another important area of strategic risk management for the Executive Committee is the impact of continuously changing legislation and regulations with which we, as a financial institution, must comply. Our Executive Committee is responsible for the management of strategic risks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK

We define ESG risk, including climate risk, as the risk that NWB Bank's strategic goals (including sustainable development goals), capital position and/or profit are negatively affected by ESG factors. These factors manifest themselves in financial and non-financial risks. Our risk appetite for this risk is low.

We take ESG risks into account when assessing loan applications. These include governance aspects for housing associations, and the equator principles for project financing.

The supervisory authority published several papers and guidelines last year in which ESG risks were discussed. We took further steps in 2021 to integrate ESG risks into the Risk Management Framework. In early 2021, the bank conducted a gap analysis on the guidelines issued by the European Central Bank. Based on this assessment, the risk identification process was launched to identify ESG risks for the most important client groups in the portfolio. A materiality assessment was then carried out based on this risk assessment, in which we identified the most material ESG risks for the various risk types (credit, liquidity, interest rate and operational risk). Material risks have been identified for credit risk, interest rate risk and operational risk. The next step will be to test these material ESG risks in interviews with our bank's main stakeholders in the first half of 2022. In addition, material ESG risks will be further integrated into the Risk Appetite Statement and Credit Risk Management Policy during the annual update of these documents. To enrich the individual client assessment, the ESG data collection will also be expanded. This data collection will also help in future materiality assessments.
Given the results of the materiality analysis and the fact that we are a promotional bank and our strategy is geared towards sustainability, the ESG risk profile is considered limited. This will be further substantiated in the coming period by further quantifying these risks where possible.

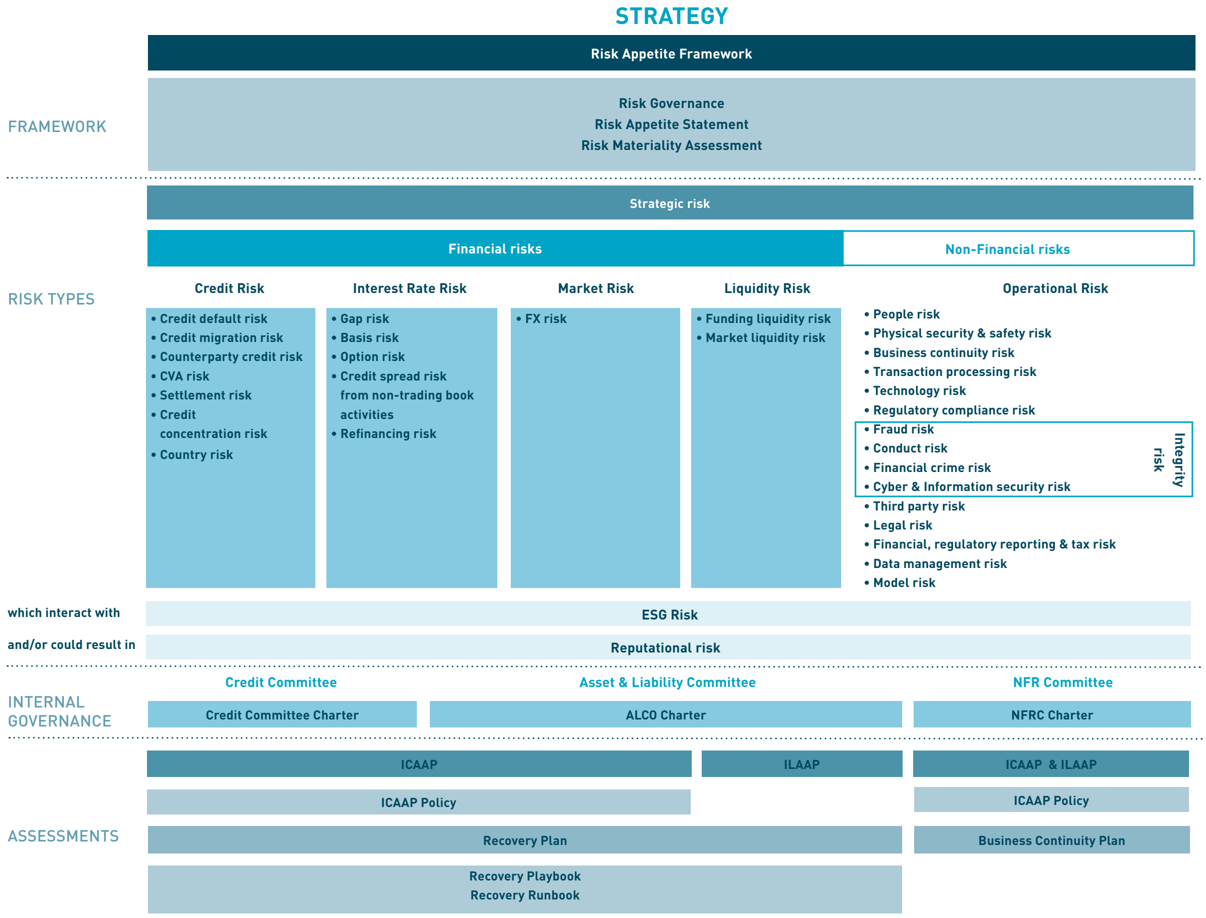
REPUTATIONAL RISK

Reputational risk is the risk of damage to our bank's reputation resulting from an incident. Reputational risk can result from any kind of event, which means that this type of risk needs to be managed in the context of all other risks.

Reputational risk may result in a loss of our ability to meet our objectives because we no longer meet the expectations of our clients, regulators, rating agencies, investors or other stakeholders. Our Executive Committee is responsible for managing reputation risk.

RISK MANAGEMENT FRAMEWORK

Risk management within our bank is organised according to the following risk management framework. This framework brings together various elements that play a role in NWB Bank's risk management. The different risk types are discussed in detail in the 'Risks and Opportunities' section in the Report of the Managing Board.



Risk governance

Our chosen strategy places high demands on risk management and the design and maintenance of adequate internal controls. We apply an organisation-wide approach to risk management and control. The Executive Committee defines the risk management framework and, within this framework, the Asset & Liability Committee, Credit Committee and Non-Financial Risk Committee take decisions about the bank's risks. The Supervisory Board, and in particular its Risk Committee, evaluates the management of risks related to the carrying out of the bank's business. This is an important part of its supervisory task.

Risk assessments

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) is used to determine minimum capital requirements. This process assesses our bank's capital adequacy for each type of risk on a quarterly basis. The ICAAP is therefore an important activity in the bank's capital management. Part of the ICAAP is to perform stress tests to assess the robustness of our capitalisation. In 2022, we will participate in the EU stress test, which will focus on climate-related and environmental risk.

Internal Liquidity Adequacy Assessment Process

The Internal Liquidity Adequacy Assessment Process (ILAAP) concerns the internal assessment of the adequacy of the liquidity position, and liquidity risk management. The ILAAP determines our internal liquidity requirements.

Recovery Plan

As is the case every year, we updated our recovery plan at the end of 2021 and submitted it to the ECB/DNB. The Recovery Plan sets out the measures a bank can take in a severe stress situation, and how it can recover afterwards. A key part of the recovery plan is the set of 'recovery triggers' which may prompt the bank to take action. These recovery triggers, which are formulated in the recovery plan, are consistent with our risk appetite.

IN CONTROL-STATEMENT

The Managing Board continues to focus on further improving the internal risk management and control systems for the primary processes, and the monitoring thereof. In light of the incident of fraud at the beginning of last year, procedures have been further strengthened in the integral credit supply chain, partly as a result of recommendations from the internal and external investigation.

The Report of the Managing Board provides sufficient insight into the operation of the internal risk management and control systems. There are no material risks and uncertainties that are relevant to the expectation of the continuity of the company for a period of 12 months after the report has been prepared. The internal risk management and control systems provide a reasonable degree of certainty that the financial reporting contains no material inaccuracies.

STATEMENT OF THE MANAGING BOARD

The Managing Board declares that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit of our bank. In the opinion of the Managing Board, it is justifiable that the financial statements have been prepared on a going-concern basis. In addition, the Managing Board declares that, to the best of its knowledge, the Report of the Managing Board is a true and fair reflection of the bank's state of affairs on the balance sheet date, the course of business during the financial year and a description of the principal risks the bank faces.

The Hague, 18 March 2022

Managing Board

Lidwin van Velden
Melchior de Bruijne
Frenk van der Vliet

FINANCIAL STATEMENTS

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STATEMENT OF INCOME

for the year ending on 31 december 2021

(in millions of euros)	Note	**2021**	2020
Interest and similar income		1,462	1,468
Interest and similar expenses		1,176	1,224
Net interest income	1	**286**	**244**
Results from financial transactions	2	-20	-55
Other operating income		-	-
Total operating income		**266**	**189**
Employee benefits expense	3	13	12
Other administrative expenses	4	19	27
Employee benefits and other expenses		**32**	**39**
Depreciation, amortisation and value adjustments of tangible and intangible assets	5	3	3
Bank tax and resolution levy	6	38	12
Depreciation of receivables and provisions for liabilities included in the balance sheet	7	-	-
Total operating expenses		**73**	**54**
Profit from ordinary operations before tax		**193**	**135**
Tax on profit from ordinary operations	8	72	54
Net profit		**121**	**81**

BALANCE SHEET

as at 31 December 2021 before profit appropriation

(in millions of euros)	Note	**2021**	2020
Assets			
Cash, cash equivalents and deposits at the Central Bank	9	10,628	9,857
Banks	10	6,421	9,577
Loans and receivables	11	70,250	76,562
Interest-bearing securities	12	4,760	5,779
Intangible assets	13	6	6
Tangible assets	14	4	5
Other assets	15	15	15
Derivative assets	16	3,926	5,064
Prepayments	17	9	17
Total assets		**96,019**	**106,882**
Liabilities			
Banks	18	12,513	11,493
Funds entrusted	19	6,300	7,325
Debt securities	20	65,098	70,544
Other liabilities	21	53	91
Derivative liabilities	22	9,776	15,245
Income tax	23	31	11
Accruals	24	5	3
Provisions	25	15	17
		93,791	**104,729**
Subordinated debt	26	**326**	**326**
Paid-up and called-up share capital	27	7	7
Revaluation reserves	28	-	1
Other reserves	29	1,774	1,738
Unappropriated profit for the year	30	121	81
Equity		**1,902**	**1,827**
Total liabilities		**96,019**	**106,882**
Irrevocable commitments	31	5,358	4,306

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 december 2021

(in millions of euros)	Note	**2021**	2020
Net changes in the revaluation reserves	28	-1	-
Net changes in other reserves (Changes in value as part of the pension provision before income tax)	29	-	7
Income tax on income and expenses recognised directly in equity		-	-2
Income and expenses recognised directly in equity		**-1**	**5**
Net profit		121	81
Comprehensive income		**120**	**86**

STATEMENT OF CHANGES IN EQUITY

for the year ending on 31 December 2021

(in millions of euros)	Paid-up share capital	Revaluation reserves	Other reserves	Unappropriated profit for the year	**Total**
As at 31 December 2020	**7**	**1**	**1,738**	**81**	**1,827**
Change in accounting policies property in use by the bank	-	-1	-	-	-1
As at 1 January 2021	**7**	**-**	**1,738**	**81**	**1,826**
Profit appropriation of previous year	-	-	81	-81	-
Dividend	-	-	-45	-	-45
Direct change in the value of equity	-	-	-	-	-
Profit for the year	-	-	-	121	121
As at 31 December 2021	**7**	**-**	**1,774**	**121**	**1,902**
As at 1 January 2020	**7**	**1**	**1,693**	**95**	**1,796**
Profit appropriation of previous year	-	-	95	-95	-
Dividend	-	-	-55	-	-55
Direct change in the value of equity	-	-	5	-	5
Profit for the year	-	-	-	81	81
As at 31 December 2020	**7**	**1**	**1,738**	**81**	**1,827**

STATEMENT OF CASH FLOWS

for the year ending on 31 December 2021

(in millions of euros)	Note	2021	2020
Profit before income tax		193	135
Adjusted for:			
Depreciation, amortisation and value adjustments of tangible and intangible assets		3	3
Unrealised change in the value of assets and liabilities for fair value hedge accounting		114	203
Change in bank loans and receivables not available on demand	10, 18	3,390	-1,824
Change in public sector loans and receivables	11	-466	-1,393
Change in funds entrusted	19	-637	598
Change in other assets and liabilities		1,257	-2,613
Net cash flow from operating/banking activities		**3,854**	**-4,891**
Additions to interest-bearing securities	12	-2,122	-8,017
Sale and redemptions of interest-bearing securities	12	3,001	7,005
		879	**-1,012**
Additions to tangible assets	14	-1	-1
Disposals of tangible assets	14	-	-
		-1	**-1**
Additions to intangible assets	13	-2	-3
Net cash flow from investing activities		**876**	**-1,016**
Long-term debt securities issued	20	8,019	13,643
Redemption of long-term debt securities	20	-9,766	-6,582
Short-term debt securities issued	20	189,280	145,460
Redemption of short-term debt securities	20	-191,883	-155,204
Borrowed long-term loans Funds entrusted	19	320	25
Redemption long-term loans Funds entrusted	19	-788	-88
Borrowed long-term loans Banks	18	1,000	10,250
Redemption long-term loans Banks	18	-41	-30
		-3,859	**7,474**
Dividend paid	29	-100	-
Net cash flow from financing activities		**-3,959**	**7,474**
Cash flow		**771**	**1,567**

(in millions of euros)	**2021**	2020
Cash and cash equivalents as at 1 January	9,857	8,290
Cash flow	771	1,567
Cash and cash equivalents as at 31 December	**10,628**	**9,857**

The cash and cash equivalents include deposits at the Central Bank and current account balance at credit institutions. In 2021, the interest paid amounted to €765 million (2020: €993 million) and the interest received amounted to €1,166 million (2020: €1,311 million). These amounts are included under 'Other assets and liabilities' in the statement of cash flows. In 2021, the income tax paid amounted to €54.1 million (2020: €31.2 million) and the bank tax paid amounted to €32.3 million (2020: €20.3 million).

GENERAL NOTES TO THE FINANCIAL STATEMENTS

COMPANY INFORMATION

The 2021 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 18 March 2022 and will be submitted for approval to the Annual General Meeting of Shareholders on 14 April 2022.

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 is an essential financial service provider in the Dutch public sector and the go-to financing partner for enhancing sustainability in the Netherlands. In addition to financing water authorities, municipalities and provincial authorities, it finances other public sector bodies such as housing associations, hospitals, educational institutions, drinking water companies, Public-Private Partnership (PPP) projects and renewable energy 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.

COVID-19

Just as in the previous fiscal year, the ongoing financial impact of the coronavirus outbreak during the preparation of these financial statements poses uncertainties. In spite of this, we believe that the going-concern assumption will not be affected. The bank's high creditworthiness means it is in a good position to fund itself and thus provide its customers with the required credit. The quality of the loan portfolio remains high. In addition, the bank has introduced measures to safeguard the continuity of the (financial) business processes.

The impact of COVID-19 is further reflected in the update of the macro-economic factors in the 'Expected credit loss' section, the ECB regulations in the 'Unappropriated profit for the year' section and the 'Proposed profit appropriation' section, and in the Risk management section.

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 and derivatives. The specific interest-bearing securities and derivatives are stated at fair value, and the property is valued at the current cost. 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.

Change in accounting policy

As of 1 January 2021, NWB Bank has adjusted the accounting policy for owner-occupied properties as part of tangible assets from current cost to historical cost, which the bank considers more appropriate and in line with industry practice. In accordance with RJ 140, the first application of this change in accounting policy is charged to equity (€1.2 million). This change in accounting policy has no significant effect on equity, profit or comparative figures. The change in accounting policy is explained in more detail in the sections 'Tangible assets', 'Statement of changes in equity' and 'Revaluation reserves'.

Recognition

An asset is recognised 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 a financial asset or financial liability is recognised in the balance sheet from the time the company is respectively entitled to the benefits or bound by the obligations arising from the contractual 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 interest-bearing securities held to maturity, other unlisted interest-bearing securities as well as banks are stated at amortised cost. Along with banks, other interest-bearing securities that are publicly unlisted are subsequently stated at amortised cost. Other interest-bearing securities and derivatives that are publicly listed are 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.

Provision for uncollectible receivables

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

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

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

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

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

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

Hedge accounting

The bank 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 only permitted if adequate documentation is in place and the requisite hedge effectiveness has been 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 that are part of the fair value hedge are recorded in profit or loss as results from financial transactions.

NWB Bank applies two types of fair value hedge accounting: micro-hedging and macro-hedging. Micro-hedging relates to individual transactions that are included in an economic hedge relationship covering interest rate and foreign exchange risks. It involves a one-on-one relationship between the hedged instrument and the hedged item. Macro-hedging relates to a group of transactions that is hedged, for interest rate risk purposes, by using a group of derivative financial instruments. While there is not always a one-on-one relationship between the hedged item and the hedging instrument at an individual level, it is demonstrated at a portfolio level that the derivative financial instruments in question offset the fair value changes of the assets in question, respectively, 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 based on the effective interest method less a potential provision for uncollectibility.

Loans and receivables, and Banks

Loans and receivables, and banks are stated at amortised cost using the effective interest method, less a potential 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 potential provision for uncollectibility.

Other interest-bearing securities

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

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

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

Intangible assets

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

Tangible assets

Tangible fixed assets consist of property and equipment. As of 1 January 2021, immovable property is valued at cost (see section 'Change in accounting policies'). Through 2020, property was still valued at current cost. Property and equipment are stated at acquisition price net of straight line depreciation. Depreciation of these assets is recognised in profit or loss over a given period, which corresponds with 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	10%
• office equipment	20%
Computer equipment	20%
Cars	20%

Land is not depreciated.

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

Derivatives

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

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

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. Any discrepancies between a financial instrument's fair value and the value under the bank's measurement models are amortised over the instrument's term. Derivatives are subsequently remeasured at fair value including accrued interest. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised in profit or loss under the item results from financial transactions. Generally accepted measurement models are applied, based on the most appropriate valuation curves, including the '€STER curve'. A credit valuation adjustment and a debt valuation adjustment are also included in the measurement.

Embedded derivatives are measured separately if they meet the following characteristics:

- There is no close relationship between the economic characteristics and risks of the embedded derivative and those of the host contract.
- The host contract is not carried at fair value through profit or loss.
- A separate instrument having the same characteristics would be classified as a derivative.

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

Banks, funds entrusted, debt securities and subordinated debt

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

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

Employee benefits - defined benefit plan obligations

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

A defined contribution pension plan is a scheme in which the employee's pension contribution (rather than the payment) is defined. The provision for defined benefit plans is the present value of the pension liabilities at the balance sheet date less the fair value of the plan assets. The defined benefit plan obligations are calculated annually by an independent actuary using the 'projected unit credit method'.

Netting of financial assets and financial liabilities

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

Revenue recognition

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

Net interest income

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

Income tax

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

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

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

Basis for preparation of the statement of cash flows

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

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

The changes in loans and receivables, funds entrusted and those based on banks are stated under cash flows from operating/banking activities, given the nature of the operations.

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

Segmented information

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

Significant assumptions and estimation uncertainties

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

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

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

Other developments

As part of the benchmark reform, in which reference interest rates change, CCPs adjusted the Price Alignment Index (PAI) for centrally cleared interest rate derivatives from Eonia to €STER. The PAI is the index used to discount future cash flows to determine the market value of derivatives and collateral. The bank completed this transition in July 2020. In the period up to 31 December 2021, the bank implemented changes as part of the transition resulting from benchmark reform for all bilateral derivative agreements. The results of this transition are reflected in the result from financial transactions.

NOTES ON THE STATEMENT OF INCOME

1 NET INTEREST INCOME

Interest income consists of interest income on loans and receivables, interest-bearing securities, cash, cash equivalents and deposits at the Central Bank, as well as interest-like commission, fees received for the early redemption of financial instruments to which no hedge accounting is applied, premiums and discounts. Premiums and discounts on loans and receivables not stated at fair value are recognised using the effective interest method, together with the relevant interest income.

Interest expense consists of interest expenses on liabilities, whether or not embodied in debt securities, and derivatives, as well as interest-like commission, fees paid for early redemption, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

	2021	2020
Interest income on cash, cash equivalents and deposits at the Central Bank, Banks and on loans and receivables at amortised cost	1,320,765	1,406,528
Interest income on interest-bearing securities	16,240	5,844
Commission	3,100	2,114
Negative interest expense	122,576	52,921
Interest income	**1,462,681**	**1,467,407**
Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost	271,952	360,885
Derivatives (net interest income/expense)	667,408	667,046
Negative interest income	236,566	196,149
Interest expense	**1,175,926**	**1,224,080**
Net interest income	**286,755**	**243,327**

Negative interest income concerns the negative interest on financial assets: cash and cash equivalents and deposits at the Central Bank, banks, and loans and receivables. Negative interest expense concerns the negative interest on financial liabilities banks, funds entrusted and debt securities, excluding the negative interest for foreign currency hedging instruments. Negative interest expense includes interest on the TLTRO financing. It should be noted that the TLTRO's favourable rate applies for the first two years, but that the corresponding loans, onto which the favourable rate is transferred, have longer maturities. Consequently, a shift in the result does occur over time.

The item 'Interest expense on banks, funds entrusted, hybrid capital and debt securities at amortised cost' reflects the interest expense for these items, from which the negative interest for foreign currency hedging instruments of €212 million (2020: €193 million) has been deducted.

2 RESULTS FROM FINANCIAL TRANSACTIONS

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

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

	2021	2020
Changes in the fair value of derivatives included in macro-hedge accounting	6,441,485	-4,903,997
Revaluation of financial assets and liabilities included in macro-hedge accounting	-6,442,118	4,899,053
Macro hedge accounting ineffectiveness	**-633**	**-4,944**
Micro-hedge accounting ineffectiveness	807	46
Total hedge accounting ineffectiveness	**174**	**-4,898**
Other changes in the fair value of restructured derivatives included in hedge accounting	-37,756	-50,072
Changes in the fair value of derivatives not included in hedge accounting	2,062	-3,538
Change in counterparty credit risk (CVA/DVA)	-134	-2,384
Results from maturity extensions and early redemptions	14,353	5,530
Other fair value changes	1,541	-555
Total	**-19,760**	**-55,917**

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

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

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

The fair value of the financial instruments when applying hedge accounting is €22,009 million as at 31 December 2021 (on 31 December 2020: €31,884 million) on the assets side of the balance sheet, and €12,562 million as at 31 December 2021 (on 31 December 2020: €21,608 million) on the liabilities side.

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

In 2021, Eonia-€STR transitions (Benchmark Reform) were carried out and finalised during bilateral agreements based on the Eonia curve -/- 8.5 bps. The valuation differences related to the BMR transition are part of the results from financial transactions and amounted to €3.8 million in 2021.

3 EMPLOYEE BENEFIT EXPENSES

The number of employees expressed in full-time equivalents (FTEs), including the Executive Committee, totalled 89.3 (2020: 71.7) at the end of the financial year. Three FTEs are statutory members of the Executive Committee, one is a non-statutory member of the Executive Committee, twelve are members of the management team and 73.3 are staff members (2020: three statuary members of the Executive Committee, one non-statutory member of the Executive Committee, twelve members of the management team and 55.7 employees). The average number of FTEs (including the Executive Committee) was 80.5 (2020: 67.3).

	2021	2020
Wages and salaries	8,034	7,373
Pension costs	1,370	1,257
Other social security costs	754	737
Other staff costs	2,863	2,214
Total	**13,021**	**11,581**

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 €1,048,000 in 2021 (2020: €1,040,000).

	Fixed remuneration	Pension contribution	Other	**Total**
2021				
Lidwin van Velden	285	40	64	389
Melchior de Bruijne	242	34	37	313
Frenk van der Vliet	255	37	54	346
Total	**782**	**111**	**155**	**1,048**

	Fixed remuneration	Pension contribution	Other	**Total**
2020				
Lidwin van Velden	283	40	64	387
Melchior de Bruijne	241	34	37	312
Frenk van der Vliet	253	36	52	341
Total	**777**	**110**	**153**	**1,040**

The fixed remuneration comprises the fixed salary for 13 months as well as an 8% holiday allowance and an extra allowance of 11.1%.

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. In the remuneration and appointments committee meeting on 10 February 2022, the committee concluded that Executive Board members Lidwin van Velden and Frenk van der Vliet had achieved the 2018 long-term elements. In line with its own positive assessment, the committee decided to make payable the deferred portion of the Executive Board's 2018 variable remuneration, totalling €12,000 for Lidwin van Velden and €11,000 for Frenk van der Vliet.

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 2021 (2020: €3,000).

A staff mortgage loan discount plan: in 2021, this taxed allowance amounted to €3,000 for Lidwin van Velden (2020: €3,000), €6,000 for Melchior de Bruijne (2020: €6,000) and nil for Frenk van der Vliet (2020: nil).

A contribution for the net pension scheme: in 2021, this taxed allowance amounted to €32,000 for Lidwin van Velden (2020: €32,000), €17,000 for Melchior de Bruijne (2020: €17,000) and €22,000 for Frenk van der Vliet (2019: €23,000). This employer contribution above the €112,189 cap is based on an age-dependent, graduated scale for pensionable earnings. A 3% employee contribution is deducted from this.

Compensation for the harmonisation of the net pensions scheme as of 2015: in 2021, this taxed allowance amounted to €9,000 for Lidwin van Velden (2020: €9,000) and €11,000 for Frenk van der Vliet (2020: €11,000).

Compensation has been allocated for non-contributory entitlements determined as at December 31, 2019. In 2021, this amounted to €13,000 (2020: €13,000) for Lidwin van Velden, €9,000 (2020: €9,000) for Melchior de Bruijne and €8,000 (2020: €7,000) for Frenk van der Vliet.

The flat-rate contribution for the car provided by the bank is based on the additional tax liability and amounts to €3,000 (2020: €3,000) for Lidwin van Velden, €2,000 for Melchior de Bruijne (2020: €2,000) and €10,000 for Frenk van der Vliet (2020: €9,000).

4 OTHER ADMINISTRATIVE EXPENSES

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

	2021	2020
Consultancy and regulatory fees	9,838	6,215
Information and communication	4,955	5,152
Other costs	3,858	15,846
Total	**18,651**	**27,213**

In 2020, costs were higher mainly due to the impact of the identified fraud incident (€12 million). Excluding these one-off costs, the costs in 2021 increased mainly due to higher consultancy costs related to the Lighthouse project, as outlined in the Report of the Managing Board.

The remuneration of the seven (2020: seven) Supervisory Board members, which is also included in the other costs, amounted to €174,000 (2020: €225,000).

Remuneration of the Supervisory Board members

	2021	2020
Joanne Kellermann	39	33
Age Bakker	-	14
Peter Glas	8	-
Petra van Hoeken	24	30
Frida van den Maagdenberg	24	29
Toon van der Klugt	24	30
Maurice Oostendorp	7	30
Annette Ottolini	24	29
Manfred Schepers	24	30
Total	**174**	**225**

The amounts stated above include both travel allowances and VAT. As of 2021, VAT is no longer charged on commissioners' compensation.

Auditor's fees

In the financial year, the following fees were recognised, as covered in 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.

	2021	2020
Consultancy and regulatory fees	646	357
Other costs	462	323
Total	**1,108**	**680**

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. Moreover, additional activities were included in the other audit engagements for the audit of specific projects. Costs in 2021 were higher than in the last fiscal year due to additional activities relating to the incident of fraud identified at the beginning of the year.

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 tangible assets. 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 2021 and 2020 are based on the balance sheet at year-end 2020 and 2019, respectively, and are charged to the profit for 2021 and 2020, respectively.

Bank tax is based on the ratio of current liabilities at the end of the previous financial year amounting to €17,517 million (2020: €24,333 million) and long-term liabilities for the previous financial year amounting to €87,539 million (2020: €70,077 million). In 2021, a generic one-off rate that is 50% higher than in 2020 meant the total amount of bank tax paid in 2021 was €32.3 million (2020: €20.3 million).

Under the Bank Recovery and Resolution Directive (BRRD), the bank is required to pay a resolution levy. The levy for the year 2021 was paid to the Single Resolution Fund and amounted to €7.2 million (2020: €6.8 million). Of this amount, €1.1 million (2020: nil) was paid in the form of Irrevocable Payment Commitments, and €6.1 million (2020: €6.8 million) was charged to the profit.

7 DEPRECIATION OF RECEIVABLES AND PROVISIONS FOR LIABILITIES INCLUDED IN THE BALANCE SHEET

Starting 1 January 2020, NWB Bank began using the option to apply the 'expected loss impairment methodology' of IFRS 9. This item can be summarised as follows:

(in thousands of euros)	2021	2020
Loans and receivables	-295	56
Interest-bearing securities	-	-6
Total	**-295**	**50**

A detailed explanation of the Expected Credit Loss can be found in section 32.

8 INCOME TAX EXPENSE

	2021	2020
Profit before income tax (incl. extraordinary income)	193,550	134,239
Income tax at 25.0%	48,387	33,560
Non-deductible expenses relating to bank tax	8,079	5,070
Thin cap rule	15,464	16,120
Adjustments for previous financial years	71	-2,620
Change in valuation property in use by the bank	-276	-
Change of future income tax rate	386	1,619
Other non-deductible expenses and adjustments	-22	-10
Income tax expense	**72,089**	**53,739**
Effective tax burden (%)	37.2%	40.0%

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

	2021	2020
Current tax	**73,834**	**56,818**
Changes previous years	71	-2,620
Change in provision for pensions	34	210
Results from 'basisrentelening' loans deferred for tax purposes	-786	-786
Results from maturity extensions deferred for tax purposes previous years	-1,174	-1,503
Change in valuation property in use by the bank	-276	-
Change of future income tax rate	386	1,620
Deferred tax	**-1,816**	**-459**
Income tax expense	**72,089**	**53,739**

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

In 2019, a restriction on the tax deductibility of Additional Tier 1 capital was introduced. In 2020, this restriction was removed with retroactive effect. The amount of the adjustment in 2020 has been recognised in the item 'Changes to previous financial years'.

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

In 2021, the government decided to change the income tax rate over the coming few years. The percentage for the coming years has been changed to 25.8%. The increase will lead to higher deferred tax liabilities. The effect of this has been recognised in the preparation of the financial statements above under 'Change of future income tax rate'.

NOTES ON 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 European Central Bank (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:

	2021	2020
Balances payable on demand	286	73
Receivables under collateral arrangements	6,253,966	9,398,849
Receivables guaranteed by the Dutch government	166,940	178,181
Total	**6,421,192**	**9,577,103**

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 Dutch public sector, are mostly long-term. Public sector loans and receivables are understood to include those to or guaranteed by Dutch public authorities, and to government-controlled public limited liability companies and other businesses or institutions with delegated government duties.

The movements in loans and receivables are shown below:

	2021	2020
As at 1 January	**76,562,252**	**69,961,967**
Newly granted long-term loans	12,430,840	8,717,286
Newly granted short-term loans	3,406,950	6,961,955
Redemptions	-15,500,435	-14,280,872
Value adjustment for fair value hedge accounting	-6,649,663	5,201,860
Expected Credit Loss	-295	56
As at 31 December 2021	**70,249,649**	**76,562,252**

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

	2021	2020
Receivables from or under guarantee by the Dutch government	50,525,760	49,654,622
Non-guaranteed receivables to the public sector and others	2,685,100	1,870,495
Receivables under collateral arrangements	1,187,742	2,536,130
Value adjustment for fair value hedge accounting	15,852,083	22,501,746
Expected Credit Loss	-1,036	-741
Total	**70,249,649**	**76,562,252**

Non-guaranteed receivables to the public sector concern receivables from the drinking water companies, Public-Private Partnership projects and renewable energy projects.

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

	2021	2020
Water authorities	8,227,183	7,447,839
Municipalities	5,387,681	5,521,628
Social housing	32,891,636	32,797,479
Other	4,019,260	3,887,676
Total	**50,525,760**	**49,654,622**

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

The collateral value of the portion of the loans and receivables portfolio contributed as collateral to DNB amounted to €16.5 billion at the end of 2021 (€15.4 billion at the end of 2020), of which a total of €11 billion (2020: €10 billion) was encumbered by participating three times (2020: twice) in the targeted longer-term refinancing operation (TLTRO).

Of the loans and receivables, a nominal €1.8 billion has a remaining term to maturity of fewer than 12 months (2020: €2.4 billion).

12 INTEREST-BEARING SECURITIES

This item can be broken down as follows:

	2021	2020
Interest-bearing securities held to maturity	665,269	1,670,047
Other listed interest-bearing securities	876,471	1,023,965
Other unlisted interest-bearing securities	3,217,995	3,085,459
Total	**4,759,735**	**5,779,471**

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

	Public sector bodies	Other	Total
As at 1 January 2021	**3,348,387**	**2,431,084**	**5,779,471**
Purchases	855,094	1,267,370	2,122,464
Sales and redemptions	-1,763,048	-1,237,807	-3,000,855
Value adjustments in Other interest-bearing securities	-77,381	-63,964	-141,345
Expected Credit Loss	-	-	-
As at 31 December 2021	**2,363,052**	**2,396,683**	**4,759,735**
As at 1 January 2020	**2,833,610**	**1,877,461**	**4,711,071**
Purchases	5,992,306	2,024,580	8,016,886
Sales and redemptions	-5,514,226	-1,491,224	-7,005,450
Value adjustments in Other interest-bearing securities	36,697	20,273	56,970
Expected Credit Loss	-	-6	-6
As at 31 December 2020	**3,348,387**	**2,431,084**	**5,779,471**

In the previous financial year, the bank began investing in senior notes of a Green pass-through NHG RMBS (Residential Mortgage-Backed Securities), in line with the third pillar of its strategy as a 'financing partner that can enhance sustainability in the Netherlands'. In 2021, the portfolio was further expanded through a new investment in the senior notes of a similar NHG RMBS. The bank aims to help reduce mortgage costs for owners of sustainable homes through a national mortgage guarantee. The nominal €1,329 million (31 December 2020: €950 million) in total investment is included in the item 'Other unlisted interest-bearing securities'.

Starting in 2020, a provision for uncollectibility will be implemented based on the Expected Credit Loss method of IFRS 9, in which the comparative figures have not been adjusted according to regulation. This is explained in more detail in section 33, 'Expected Credit Loss'.

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 2021 (€0.2 billion at the end of 2020). Of the interest-bearing securities, a nominal €651 million (2020: €1,658 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 2021 and 2020 is as follows:

	2021	2020
Carrying amount as at 1 January	**6,358**	**5,107**
Additions	2,315	3,045
Amortisation	-2,176	-1,794
Carrying amount as at 31 December	**6,497**	**6,358**

The cumulative amounts as of 31 December were as follows:

	2021	2020
Additions	21,024	18,708
Amortisation	-14,527	-12,350
Carrying amount as at 31 December	**6,497**	**6,358**

14 TANGIBLE ASSETS

This item comprises capitalised expenses related to the office building and other equipment. Other equipment consists mainly of furniture and fittings, computer equipment and cars. As of 1 January 2021, the bank has modified its means of valuation of the properties it uses from current cost to historical cost, in order to provide clearer insight by taking into account what is customary in the sector. The specification below shows the effects of this change in accounting policy, which has had no significant impact on equity, the result or on comparative figures. The specification of this item's movements in 2021 and 2020 is as follows:

	Property in use by the bank	Other equipment	**Total**
Carrying amount as at 31 December 2020	**3,228**	**1,766**	**4,994**
Change in accounting policies property in use by the bank	-1,229	-	-1,229
Carrying amount as at 1 January 2021	**1,999**	**1,766**	**3,765**
Additions 2021	-	978	978
Disposals 2021	-	-31	-31
Depreciation in 2021	-179	-668	-847
Carrying amount as at 31 December 2021	**1,820**	**2,045**	**3,865**
Carrying amount as at 31 December 2019	**3,529**	**1,393**	**4,922**
Additions 2020	73	982	1,055
Disposals 2020	-	-26	-26
Depreciation in 2020	-374	-583	-957
Carrying amount as at 31 December 2020	**3,228**	**1,766**	**4,994**

The cumulative amounts at the end of 2021 were as follows:

	Property in use by the bank	Other equipment	**Total**
Additions	10,002	11,279	21,281
Depreciation	-8,182	-9,234	-17,416
Carrying amount as at 31 December 2021	**1,820**	**2,045**	**3,865**

The cumulative amounts at the end of 2020 were:

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

15 OTHER ASSETS

This item relates primarily 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 and €STER curve. In the 2021 breakdown of derivatives below, derivatives totalling €66,883 (2020: €69,418) were not included in hedge accounting.

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

	<3 months	3-12 months	1-5 years	>5 years	**Total**
2021					
Interest rate swaps	43,726	19,543	46,284	1,647,493	1,757,046
Currency swaps	124,398	127,348	432,469	813,858	1,498,073
Caps, floors and swaptions	-	-	20	670,886	670,906
Total 2021	**168,124**	**146,891**	**478,773**	**3,132,237**	**3,926,025**
2020					
Interest rate swaps	36,320	2,023	228,509	2,251,633	2,518,485
Currency swaps	56,956	19,366	359,070	1,116,738	1,552,130
Caps, floors and swaptions	-	-	-	993,296	993,296
Total 2020	**93,276**	**21,389**	**587,579**	**4,361,667**	**5,063,911**

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. This item can be broken down as follows:

	2021	2020
Loans taken out at banks	11,772,810	10,923,168
Value adjustment for fair value hedge accounting	45,020	99,716
Liabilities under collateral arrangements	695,120	460,209
Exposure Central Clearing	-	9,490
Total	**12,512,950**	**11,492,583**
Movement in long-term loans taken out at banks:		
As at 1 January	10,923,168	742,468
Loans taken out at banks	1,000,000	10,250,000
Redemptions, accruals and currency revaluations	-150,358	-69,300
As at 31 December	**11,772,810**	**10,923,168**

The collateral included in this item concerns collateral held under collateral arrangements related to derivative contracts.

The Exposure Central Clearing item comprises the balance of the daily offset of the derivatives against the collateral received or paid with central counterparties.

The 'loans taken out by banks' item includes the bank's participation for the amount of €11 billion (2020: €10 billion) in targeted longer-term refinancing operations (TLTRO III.4, TLTRO III.5 and TLTRO III.7) implemented by the ECB. The duration of the participation lasts until 28 June 2023, 27 September 2023 and 27 March 2024, respectively (with the option of interim early redemptions), and is an operation of the Eurosystem to provide funding to banks to support their expansive policy. The remuneration on the recognised amount under the TLTRO is determined retrospectively and depends on the extent to which the conditions have been met. An important condition is the degree to which the bank provides loans to non-financial corporations and households, other than mortgages. The retroactive interest rate is, depending on whether the conditions have been met, -1% or -0.5% on the amount drawn down, or lower if the ECB were to further lower the deposit interest. The bank has met all the conditions for the first special interest period, so that between June 24, 2020 and June 23, 2021 the interest rate on the credit obtained under TLTRO-III was -1.0%. The bank expects to meet the conditions for the interest period spanning 24 June 2021 to 23 June 2022 at the reporting date, thereby also achieving a percentage of at least -1%.

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

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:

	2021	2020
Funds entrusted short term	480,749	414,294
Funds entrusted long term	4,853,731	5,362,338
Value adjustments for fair value hedge accounting	965,234	1,548,659
Total	**6,299,714**	**7,325,291**
Movement in long-term funds entrusted:		
As at 1 January	5,362,338	5,437,123
Funds entrusted long term	320,000	25,000
Redemptions, accruals and currency revaluations	-828,607	-99,785
As at 31 December	**4,853,731**	**5,362,338**

20 DEBT SECURITIES

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

	2021	2020
Bond loans	59,479,640	59,776,427
Short-term debt securities	3,641,423	5,874,596
Value adjustment for fair value hedge accounting	1,976,977	4,893,353
Carrying amount as at 31 December	**65,098,040**	**70,544,376**
Movement in bond loans:		
As at 1 January	59,776,427	54,249,594
Bond loans	8,018,647	13,642,502
Redemptions, accruals and currency revaluations	-8,315,434	-8,115,669
As at 31 December	**59,479,640**	**59,776,427**

Of the total amount in long-term debt securities issued, a nominal €0.6 billion (2020: €3.4 billion) carries a variable interest rate. Of the long-term debt securities, a nominal €9.3 billion (2020: €8.8 billion) have a remaining term to maturity of less than 12 months.

21 OTHER LIABILITIES

This item can be broken down as follows:

	2021	2020
Prepaid interest and redemptions	11,998	23,924
Other liabilities	41,007	67,343
Total	**53,005**	**91,267**

The other liabilities for 2021 relate to accrued payment transactions, as well as €55 million in 2020 for the 2019 dividend that had been granted but not yet paid. This was paid out in October 2021.

22 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 and €STER curve. In the 2021 breakdown of derivatives below, derivatives totalling €49,359 (2020: €160,229) were not included in hedge accounting.

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

	<3 months	3-12 months	1-5 years	>5 years	**Total**
2021					
Interest rate swaps	3,590	12,277	104,215	8,626,614	8,746,696
Currency swaps	60,407	172,913	62,996	62,702	359,018
Caps, floors and swaptions	-	-	-	670,340	670,340
Total 2020	**63,997**	**185,190**	**167,211**	**9,359,656**	**9,776,054**
2020					
Interest rate swaps	6,717	20,107	156,374	12,510,475	12,693,673
Currency swaps	216,077	545,694	531,160	268,247	1,561,178
Caps, floors and swaptions	92	-	-	989,676	989,768
Total 2019	**222,886**	**565,801**	**687,534**	**13,768,398**	**15,244,619**

23 INCOME TAX

Income tax payable in 2021 and 2020 can be broken down as follows:

	2021	2020
Current tax expense	73,834	56,818
Advances paid	-42,679	-45,450
Total income tax payable	**31,155**	**11,368**

24 ACCRUALS AND DEFERRED INCOME

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

25 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:

	2021	2020
As at 31 December 2020 resp. 2020	**14,331**	**12,932**
Change due to change in accounting policies property in use by the bank	-146	-
As at 1 January	**14,185**	**12,932**
Change in provision for pensions	110	2,063
Change as a result of (unrealised) gains and losses of interest-bearing securities at fair value through OCI	-7	6
Change in valuation property in use by the bank	-276	-
Results from 'basisrentelening' loans deferred for tax purposes	-786	-786
Results from maturity extensions deferred for tax purposes previous years	-1,174	-1,503
Adjustment to income tax rate in coming years	386	1,619
As at 31 December	**12,438**	**14,331**

Pension provision

The movements in the pension provision are as follows:

	2021	2020
Interest cost	158	408
Expected return on plan assets	-147	-310
Administrative and other costs	5	5
Employee benefits expenses	**16**	**103**

	2021	2020
Expected return on plan assets	34,168	39,846
Administrative and other costs	-31,885	-37,124
Employee benefits expenses	**2,283**	**2,722**

	2021	2020
Opening balance defined benefit obligation	**39,846**	**45,714**
Interest cost	158	408
Benefits paid	-862	-866
Gain (loss) caused by changes (in assumptions) in plan assets	-4,973	-5,410
Closing balance defined benefit obligation	**34,169**	**39,846**

	2021	2020
Opening balance fair value of plan assets	**37,124**	**34,739**
Employer contributions	150	144
Benefits paid	-862	-866
Interest income	147	310
Return excluding interest income	-4,673	2,797
Fair value of plan assets as at 31 December	**31,886**	**37,124**

The provision respects the accrued entitlements of all participants up to and including 2019 (in 2019, the benefit pension plan for active employees changed from a defined benefit plan to a defined contribution plan) and the indexation of pension benefits for non-active employees.

The projected employer contributions for 2022 to the defined benefit plans at the end of 2021 amount to €150,000 for non-active employees (2020: €16,000).

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

	2021	2020
Discount rate	1.00%	0.40%
Future indexation inactives	0.50%	0.50%

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 since then.

The loans were provided 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 back above the 5.125% level.

The movements in subordinated debt are set out below:

	2021	2020
As at 1 January	**326,110**	**326,235**
Subordinated debt issued	-	-
Change in accrued interest and premium	-133	-125
As at 31 December	**325,977**	**326,110**

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 2021:

	Issued	Paid up
A shares		
As at 31 December 2021 (50,478 shares)	5,805	5,805
B shares		
As at 31 December 2021 (8,511 shares)	3,915	1,019
Of which unpaid (8,510 shares)	-2,896	
Total paid up as at 31 December 2021		**6,824**
Total paid up as at 31 December 2020		6,824

28 REVALUATION RESERVES

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

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

29 OTHER RESERVES

The movements in other reserves were as follows:

	Total
As at 1 January 2020	**1,692,289**
Appropriation of 2019 profit	94,502
Distribution for 2019	-55,000
Changes in value as part of the pension provision	6,159
As at 31 December 2020	**1,737,950**
Change in accounting policies property in use by the bank	146
As at 1 January 2021	**1,738,096**
Appropriation of 2020 profit	80,500
Distribution for 2020	-45,000
Changes in value as part of the pension provision	229
As at 31 December 2021	**1,773,825**

30 UNAPPROPRIATED PROFIT FOR THE YEAR

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

		2021		2020
Profit for the year		**121,462**		**80,500**
The proposed profit appropriation is as follows:				
Cash dividends on A shares	733%	42,535	659%	38,281
Cash dividends on B shares	733%	7,465	659%	6,719
		50,000		**45,000**
Added to the reserves on the approval of the Supervisory Board		71,462		35,500
		121,462		**80,500**

31 IRREVOCABLE COMMITMENTS

These commitments relate to:

	2021	2020
Loans granted but not yet paid	1,290,046	1,633,851
Committed purchase of interest-bearing securities	318,300	-
Unused current account overdraft facilities	722,263	675,495
Unused financing facilities	3,024,411	1,991,911
Guarantees issued	3,081	4,397
	5,358,101	**4,305,654**

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).

In 2021, NWB Bank entered a back-stop liquidity facility together with 147 housing corporations under a WSW guarantee of €933 million. Under this facility, drawdowns are only permitted under specific circumstances.

OTHER NOTES TO THE FINANCIAL STATEMENTS

32 EXPECTED CREDIT LOSS (ECL)

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

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

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

(in thousands of euros)	As per 31 December 2020	2021	As per 31 December 2021
Loans and receivables	-741	-295	-1,036
Interest-bearing securities	-8	1	-7
Total	**-749**	**-294**	**-1,043**

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

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

(in thousands of euros)	2021	2020
Total as at 1 January	**-749**	**-799**
Update macro-economic projections	96	-170
Credit risk scores	-390	220
Total as at 31 December	**-1,043**	**-749**

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

	From 01-01-2021 to 31-12-2021			
(in thousands of euros)	Stage 1	Stage 2	Stage 3	Total
Mutation ECL in P&L				
- Increase through new loans and loans taken over	186	-	-	186
- Decrease through redemptions	-51	-	-	-51
- Changes by creditrisk (net)	-350	510	-	160
Total	**-215**	**510**	**-**	**295**

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

The amount arising from the initial application has been charged to other reserves and the amount of the change during the financial year has been charged to the statement of income. The bank periodically reassessed and reassimilated the macro-economic parameters of the ECL model. In addition, scores were revised, which led to a decrease in the ECL. On the other hand, some exposures changed from Stage 1 to Stage 2 as a result of credit reviews. Overall, these developments are reflected in an increase in the ECL.

Impairment of loans and receivables and interest-bearing securities

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

Stage 1: This concerns the performing exposures without a Significant Increase in Credit Risk (SICR) since the starting date.

Stage 2: These are the performing exposures with an SICR since the starting date.

Stage 3: These are the non-performing exposures that are credit-impaired.

as of 31 December 2021 (in thousands of euros)	Gross carrying amount	Performing Stage 1	Performing Stage 2	Non-Performing Stage 3
Loans and receivables	73,835,629	72,129,866	1,704,594	1,169
Interest-bearing securities	4,201,564	4,201,564	-	-
Total	**78,037,193**	**76,331,430**	**1,704,594**	**1,169**

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

Analysis of the housing association, healthcare and municipal sectors showed a slight increase in their respective risk profiles. Although this only led to a slight degradation of the credit risk scores and PDs compared to the end of the previous financial year, it nevertheless triggered an SICR which resulted in a significant shift from Stage 1 to Stage 2. However, the change did not lead to an increase in the ECL amount because these are loans guaranteed by the Dutch government, with an LGD of 0%.

At the end of December, an amount of €1.2 million (2020: €132.1 million) was classified as credit-impaired. This amount concerns exposures in Stage 3 and relates to exposures to two (2020: two) clients. At year-end 2021, these exposures concerned different clients than at year-end 2020. These Stage 3 exposures are guaranteed by the government and will not lead to an ECL provision nor to a write-off.

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

Stage 1: 12-month ECL

Stage 1 includes exposures that show no SICR since their initial recognition. A 12-month ECL is recognised for this group, which is the ECL based on the probability that the exposure will default within 12 months of the reporting date. The 12-month ECL is calculated for all individual exposures as a function of the Exposure At Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) and including forward-looking (macro-economic) indicators.

Essentially, an exposure moves from Stage 1 to Stage 2 if one of the following criteria are met:

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

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

Stage 2: lifetime ECL (not credit-impaired)

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

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

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

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

Stage 3: lifetime ECL (credit-impaired)

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

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

Migrating back to an earlier ECL stage

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

Determining a SICR

An SICR exists when the credit rating at the time of reporting has significantly deteriorated compared with the credit rating at origination date. When assessing a SICR, the 'unlikely to pay' (UTP) criterion is taken into account in accordance with the bank's Non-Performing Loan Policy. Whether a SICR occurred, depends on the credit risk classification:

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

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

Rating classes

The ECL provision is based on rating classes. The following overview presents the ECL by rating class.

The breakdown as at 31 December 2021 and 31 December 2020 is as follows:

31 December 2021	Stage 1		Stage 2		Stage 3	
Rating Class	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1	6,997,465	7	-	-	-	-
2	3,004,395	-	-	-	-	-
3	9,229,765	-	-	-	-	-
4	5,785,398	50	23,178	-	-	-
5	11,434,282	44	-	-	-	-
6	11,959,073	140	89,290	-	-	-
7	17,406,146	201	38,247	-	-	-
8	4,266,156	91	467,119	510	-	-
9	5,979,331	-	991,119	-	-	-
10	355	-	44,738	-	-	-
11	269,064	-	39,746	-	-	-
12	-	-	11,157	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	1,169	-
Total	**76,331,430**	**533**	**1,704,594**	**510**	**1,169**	**-**

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

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

Analysis of the 'performing exposures' according to default date

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

(in thousands of euros)	31 December 2021	31 December 2020
Less than or equal to 30 days	1,905	3,016
Greater than 30 days and less than or equal to 60 days	-	-
Total	**1,905**	**3,016**

Parameters and assumptions used

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

Probability of Default (PD)

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

Loss Given Default (LGD)

The LGD concerns the loss in case of non-payment. The majority of the bank's portfolio consists of loans guaranteed by the State of the Netherlands.

Exposure at Default (EAD)

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

Low credit risk exemption

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

From credit risk score per client to PD rating per exposure

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

Macro-economic variables

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

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

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

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

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

Sensitivity analysis

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

Breakdown of the ECL into economic scenarios

31 December 2021		2021	2022	2023	Probability-weighting scenario	Weighted ECL	Total ECL
Scenario 1: Down market	Inflation NL	0.60	0.98	1.43	0.25	346	
	Unemployment NL	4.43	5.05	5.67	0.25		
Scenario 2: Stable	Inflation NL	1.05	1.57	2.00	0.50	508	1,043
	Unemployment NL	3.96	4.04	4.08	0.50		
Scenario 3: Up market	Inflation NL	1.50	2.14	2.57	0.25	189	
	Unemployment NL	3.49	3.04	2.53	0.25		

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

Analysis 1: sensitivity of the ECL if 100% of the individual scenarios were to be applied

The table below shows the sensitivity of the ECL if 100% of the individual scenarios (downside, base and upside) were to be applied to all exposures as of year-end in December 2021. Given the limited size of non-government guaranteed exposures, the sensitivity to the different scenarios is limited.

Sensitivity Analysis - scenarios (in thousands of euros) as per 31 December 2021	100% Downward scenario	100% Basis scenario	100% Upward scenario
ECL	1,384	1,026	757

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

Analysis 2: All Credit Risk Scores deteriorate by 1 step (CRS+1)
In this analysis, the most important factor in the calculation of the ECL, Credit Risk Scores (CRS), is shifted with a deterioration of plus 1. The impact of this shift on the ECL is an increase of approximately €4.6 million (2020: €9.3 million). As a result, the ECL would be approximately €6 million (2020: €10 million) instead of the amount of €1,043,000 (2020: €749,000) reported on 31 December 2021. As mentioned above, further refinement of the rating method as part of the ECL methodology reduced sensitivity in 2021.

33 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 periodically 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 it holds until they mature, and
2) funds the relatively long-term loans with on average shorter-term loans.

The valuation 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. From 2020, a provision for uncollectibility is determined based on the Expected Credit Loss (ECL) methodology of IFRS 9.

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. From 2020, a provision for uncollectibility is determined based on the ECL methodology of IFRS 9.

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 valuation.

As part of the benchmark reform, where reference interest rates change, the CCPs adjusted the Price Alignment Index (PAI) for centrally cleared interest rate derivatives from Eonia to €STER on 24 July 2020. As a consequence, in 2021 the bank carried out the transition from Eonia to €STER with bilateral counterparties.

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 value 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 31-12-2021**	**Fair value 31-12-2021**	Carrying amount 31-12-2020	Fair value 31-12-2020
Assets				
Cash, cash equivalents and deposits at the Central Bank	10,628	10,628	9,857	9,857
Banks	6,421	6,421	9,577	9,577
Loans and receivables	70,250	74,998	76,562	80,600
Interest-bearing securities	4,760	4,803	5,779	5,840
Derivative assets	3,926	3,926	5,064	5,064
Liabilities				
Banks	12,513	12,507	11,493	11,491
Funds entrusted	6,300	6,386	7,325	7,501
Debt securities	65,098	65,899	70,544	70,639
Subordinated debt	326	366	326	382
Derivative liabilities	9,776	9,776	15,245	15,245

Determining the fair value of financial instruments

The table below sets out how the fair value 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 2021			
Assets			
Interest-bearing securities	876		
Derivative assets		3,926	
Liabilities			
Derivative liabilities		9,776	
31 December 2020			
Assets			
Interest-bearing securities	1,024		
Derivative assets		5,064	
Liabilities			
Derivative liabilities		15,245	

Other financial instruments listed above under fair value of financial instruments were valued based on models using data available in the market.

Financial derivatives

(in millions of euros)	≤1 year	1-5 years	>5 years	**Total**
2021				
Notional amounts of interest rate derivatives	9,598	24,908	102,464	**136,970**
Notional amounts of currency derivatives	8,963	9,939	5,275	**24,177**
2020				
Notional amounts of interest rate derivatives	10,742	27,973	94,010	**132,725**
Notional amounts of currency derivatives	12,350	10,336	6,962	**29,648**

The notional amounts of the caps and floors total €49 million (2020: €21 million) and those of the swaptions €1,811 million (2020: €2,139 million). These derivatives are included under the interest rate derivatives in the above table.

34 INFORMATION ON RELATED PARTIES

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

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

At year-end 2021, an amount of €7,724 million in loans had been granted to shareholders on market terms (2020: €6,784 million).

35 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 control. This chapter provides further insight into, in particular, the quantitative aspects of the various risks. The classification follows the risk taxonomy as discussed in the risk management section of the Report of the Managing Board.

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

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 NL	Europe EU	Europe Non-EU	North America	Rest of the World	Total	RWA
2021								
Central governments	0%	10,693	-	-	-	-	10,693	-
Regional governments	0%	19,659	-	-	-	-	19,659	-
Institutions with delegated government duties	0% -100%	56,832	434	-	-	-	57,266	2,089
International organisations	0%	-	13	-	-	-	13	-
Development banks	0%	-	369	-	-	-	369	-
Banking counterparties[1]	0% -150%	868	700	6	230	3	1,807	573
RMBS (NHG) notes[1]	15%	1,625	-	-	-	-	1,625	196
Covered bonds	10%	600	-	-	-	-	600	60
Other	100%	233	-	-	-	-	233	232
Total 2021		**90,510**	**1,516**	**6**	**230**	**3**	**92,265**	**3,150**
2020								
Central governments	0%	9,972	266	-	-	-	10,238	-
Regional governments	0%	20,209	51	-	-	-	20,260	-
Institutions with delegated government duties	0% -100%	60,714	173	-	-	-	60,887	1,925
International organisations	0%	-	63	-	-	-	63	-
Development banks	0%	-	759	-	-	-	759	-
Banking counterparties[1]	0% -150%	5,873	5,242	95	2,262	24	13,496	469
RMBS (NHG) notes[1]	15% -20%	1,291	-	-	-	-	1,291	210
Covered bonds	10%	847	-	-	-	-	847	85
Other	100%	2,600	-	-	-	-	2,600	63
Total 2020		**101,506**	**6,554**	**95**	**2,262**	**24**	**110,441**	**2,752**

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

Most of NWB Bank's lending falls under the category of a 0% risk weighting, which means the credit risk is considered very limited. The counterparty credit risks and potential interbank deposits placed fall under the 20%, 50% and 100% weighting categories. The RMBS portfolio backed by NHG residential mortgages comprises senior A notes under the

15% and 20% weighting categories. 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, whereby a 0.75 multiplier is used for most renewable energy and PPP.

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

	2021		2020	
(in millions of euros)	Nominal value	Balance sheet value	Nominal value	Balance sheet value
Water authorities	7,577	8,788	6,772	8,655
Municipalities	5,272	6,094	5,101	6,320
Other public institutions	356	403	202	278
Social housing	30,586	46,236	30,391	51,630
Healthcare institutions	1,811	2,081	1,878	2,271
Other borrowers under government guarantee	691	746	786	895
Joint schemes	1,049	1,112	837	959
Drinking water companies	936	1,088	836	1,060
Renewable energy	738	733	390	392
Public-Private Partnerships	705	774	409	528
Credit institutions	168	167	178	178
Other	132	132	100	102
Total	**50,021**	**68,354**	**47,880**	**73,268**

The balance sheet value of the loans and receivables amounting to €70,249 (2020: €76,562) includes, in addition to long-term loans, short-term loans, current account balance receivables and collateral provided to non-financial counterparties amounting to €2,081 (2020: € 3,294).

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 PPPs, Drinking water companies and Renewable Energy projects. The bank has never suffered a loan loss. Owing to the adequate guarantees obtained and very limited credit risk, no losses on the loans granted are expected. Therefore, no provision for uncollectible receivables was made, nor were any loans written down on account of credit risk. Both during the year and at the balance sheet date, arrears were low in monetary terms (non-material), of a technical nature and of a very short duration. In 2021, NWB Bank held notes of RMBS programmes from two Dutch originators in its portfolio (2020: two), securitised by Dutch residential mortgage loans backed by the government under the NHG. For these notes, NWB Bank only actively uses securitisation in its role as an investor, when it monitors the risks during the maturity and firmly intends to hold these NHG RMBS notes until the expected maturity date. As part of this, the bank started investing in Green pass-through NHG RMBS in 2020. With the investment in these bonds, NWB Bank is helping to finance government-guaranteed green private residential mortgages. Credit risk is expressed in risk-weighted assets based on the Standardised Approach to Securitisations as set out in Article 251 of the CRR, in which the ratings issued by S&P, Moody's or Fitch are used to indicate credit risk. The table below shows the data as at 31 December 2021.

The total fair value exposure from derivatives to financial counterparties at year-end 2021 was €835 million (2020: €619 million). €607 million of this was covered by collateral received by the bank (2020: €460 million).

Rating	Nominal amount (€ million)	Expected expiry date	Class
AAA	1,329	2067	A

The total fair value exposure from derivatives to financial counterparties at year-end 2021 was €835 million (2020: €619 million). €607 million of this was covered by collateral received by the bank (2020: €460 million).

The total fair value exposure from derivatives from financial counterparties at year-end 2021 €6,149 million (2020: €9,246 million), of which €5,958 million (2020: €8,825 million) was covered by collateral provided by the bank. The tables below show the net fair value 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. paid	**Net position**
31 December 2021				
Assets				
Cash, cash equivalents and deposits at the Central Bank	2,905	-2,069	-593	243
Prepayments and accrued income	1,021	-351	-7	663
Total 2021	**3,926**	**-2,420**	**-600**	**906**
Liabilities				
Banks	-8,226	2,069	5,958	-199
Equity	-1,550	351	1,077	-122
Total 2021	**-9,776**	**2,420**	**7,035**	**-321**

(in millions of euros)	Positive resp. negative fair value derivatives	Netting negative resp. positive fair value derivatives	Cash collateral received resp. paid	**Net position**
31 December 2020				
Assets				
Cash, cash equivalents and deposits at the Central Bank	4,071	-3,452	-460	159
Prepayments and accrued income	993	-	-	993
Total 2020	**5,064**	**-3,452**	**-460**	**1,152**
Liabilities				
Banks	-12,698	3,452	8,825	-421
Equity	-2,546	-	2,536	-10
Total 2020	**-15,244**	**3,452**	**11,361**	**-431**

Interest rate risk

NWB Bank uses different indicators to measure the interest rate risk.

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 2021					
Assets					
Loans and receivables	99,175	31,107	3,915	11,856	52,297
Interest-bearing securities	4,854	506	475	1,796	2,077
Fixed-interest derivative assets	46,547	2,511	7,592	17,695	18,749
Variable-interest derivative assets	-38,975	-30,025	-8,902	-82	34
Total assets	**111,601**	**4,099**	**3,080**	**31,265**	**73,157**
Liabilities					
Banks, funds entrusted and debt securities	84,797	15,678	10,877	24,763	33,479
Subordinated debt	363	1	8	330	24
Fixed-interest derivative assets	39,460	-345	-1,205	4,528	36,482
Variable-interest derivative assets	-17,422	-8,240	-9,290	-27	135
Total liabilities	**107,198**	**7,094**	**390**	**29,594**	**70,120**
Total assets less liabilities 2021	**4,403**	**-2,995**	**2,690**	**1,671**	**3,037**

(in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
31 December 2020					
Assets					
Loans and receivables	108,904	35,790	4,609	11,478	57,027
Interest-bearing securities	5,883	972	1,300	1,367	2,244
Fixed-interest derivative assets	74,969	3,751	387	21,667	49,164
Variable-interest derivative assets	-64,270	-41,996	-22,134	-109	-31
Total assets	**125,486**	**-1,483**	**-15,838**	**34,403**	**108,404**
Liabilities					
Banks, funds entrusted and debt securities	90,076	21,515	5,963	26,916	35,682
Subordinated debt	381	1	8	293	79
Fixed-interest derivative assets	70,445	-3,357	-1,184	5,568	69,418
Variable-interest derivative assets	-40,039	-17,200	-22,830	-37	28
Total liabilities	**120,863**	**959**	**-18,043**	**32,740**	**105,207**
Total assets less liabilities 2020	**4,623**	**-2,442**	**2,205**	**1,663**	**3,197**

With Brexit in mind, NWB Bank has chosen to join Eurex Clearing to be able to clear derivatives through Eurex as well as clearing house 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. On 28 September 2020, ESMA recognised, among other things, LCH as a 'third-country CCP' (central clearing counterparty), which means clearing via LCH remains possible for the time being. As for the UK swap counterparties, with which the bank is not concluding or has not concluded centrally cleared bilateral derivatives, the bank has completed the switch to EU entities of those institutions. Joining Eurex and moving UK swap counterparties to EU entities ensures that NWB Bank's clearing of derivatives and concluding of bilateral derivatives have not been jeopardised by Brexit. In addition, the bank is also closely monitoring developments in the replacement of the Interbank Offered Rate (IBOR) benchmark rates. In 2021, the bank expects to complete the transition from Eonia to €STR. As at 1 January 2022, a notional principal amount of USD 40 million of issued bonds remains linked to US Libor.

DV01

NWB Bank uses DV01 (the Dollar Value of One 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 2021, it was within the limit set.

Earnings at Risk

Earnings at Risk (EaR) is a measure of the interest rate sensitivity of the bank's net interest income (NII). The EaR calculates the change in NII from an assumed change in the term structure of interest rates. The most relevant scenario assumes that all interest rates increase immediately by 25 basis points. In the month following the reference date, interest rates gradually increase further until the shock reaches 50 basis points. This could be an unexpected interest rate increase by the European Central Bank (ECB), for example, after which financial markets also expect a second interest rate increase one month later.

NWB Bank aims for a balanced exposure of its balance sheet positions to short-term interest rates. These are mainly the one-day, three-month and six-month interest rates. These rates have different sensitivities to the interest rate shocks applied. The most sensitive is the one-day rate. It changes daily, which means that the shock is reflected in the calculation within one day. The six-month interest rate, however, will only do so once every six months when the new rate is set. Thus, for a loan for which the rate changes on the reference date, the shock, i.e. 50 basis points, will not be reflected until six months later. For a loan that changes rates one day later, the original shock of 25 basis points will take effect almost immediately, and the full shock of 50 basis points will only take effect after six months.

The EaR is therefore sensitive to both the moment at which the interest rates payable and receivable change. In addition, this measure is sensitive to which rates change at any given time. The bank uses a limit for the maximum exposure. The bank tries to match interest paid and received as far as possible but accepts deviations within such a limit.

The most negative scenario, at year-end 2021 and 2020, is shown in the table below, in which there is a sudden parallel shift in interest rates of +25 basis points (bp). After this shift, there is a gradual parallel shift in interest rates of +25 bp.

(in millions of euros)	Most negative scenario 2021	Most negative scenario 2020
Rate shock +25 bp (immediate) plus rate shock +25 bp (over time)	**-5.1**	**-5.8**

Scenario analysis

NWB Bank performs scenario analyses to gain additional insight into the interest rate risk. One of these scenarios is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -200 bps and +200 bps. These scenarios are prescribed by the European Banking Authority (EBA), and the bank is expected to inform the supervisory authority if the outcomes are greater than 20% of equity. A maturity-dependent post-shock interest rate floor is applied for each currency. This starts at -100 bps at immediate maturities. This floor is increased by 5 bps per year to reach 0% for maturities of 20 years and more. The table below shows the six prescribed scenarios as at 31 December 2021 and 31 December 2020 and the impact on the economic value of equity. The impact on net interest income is also shown for the first two scenarios.

	Change in economic value of equity		Change in net interest income	
(in millions of euros)	Current period	Last period	Current period	Last period
1 Parallel up	(273.1)	(208.8)	(8.9)	(3.7)
2 Parallel down	52.7	16.7	8.9	3.8
3 Steepener	(41.4)	(11.6)		
4 Flattener	(13.0)	(28.6)		
5 Short rates up	(96.1)	(94.6)		
6 Short rates down	32.9	16.8		

Market risk

The table below shows the nominal values in millions in foreign currencies.

	2021				2020			
Currency	Asset	Liability	Derivatives	**Total**	Asset	Liability	Derivatives	**Total**
AUD	-	-5,566	5,566	-	-	-5,384	5,384	-
CAD	-	-393	393	-	-	-393	393	-
CHF	-	-1,725	1,725	-	-	-1,760	1,760	-
GBP	-	-2,208	2,208	-	-	-1,392	1,392	-
HKD	-	-	-	-	-	-	-	-
JPY	-	-80,343	80,343	-	-	-121,729	121,729	-
NOK	-	-500	500	-	-	-500	500	-
NZD	-	-446	446	-	-	-146	146	-
SEK	-	-8,450	8,450	-	-	-8,450	8,450	-
USD	-	-16,190	16,190	-	-	-23,526	23,526	-
ZAR	-	-230	230	-	-	-230	230	-

Liquidity risk

The collateral value of the portion of the portfolio contributed as collateral to DNB was €16.6 billion at year-end 2021 (€15.7 billion at year-end 2020). This collateral value was further expanded in 2021 and partially encumbered by three participations in the targeted longer-term refinancing operations (TLTROs). The modified, and therefore highly favourable, terms of the programme was the incentive to participate in it. In terms of short-term funding, NWB Bank mainly relies on this 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 2021 totalled €3.6 billion (as at 31 December 2020: €6.2 billion), a decrease that is partly attributable to the TLTRO participations. 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 2021					
Assets					
Cash, cash equivalents and deposits at the Central Bank	10,628	10,628	-	-	-
Banks	6,424	12	19	85	6,308
Loans and receivables	76,861	1,433	4,885	17,277	53,266
Interest-bearing securities	4,952	-80	563	1,896	2,573
Intangible assets	6	-	-	6	-
Tangible assets	4	-	-	2	2
Income tax	-	-	-	-	-
Derivative assets	13,114	410	672	2,798	9,234
Other assets	24	17	1	-	6
Prepayments and accrued income	-	-	-	-	-
Total assets as at 31 December 2021	**112,013**	**12,420**	**6,140**	**22,064**	**71,389**
Liabilities					
Banks	4,452	44	48	488	3,872
Funds entrusted	18,488	98	17	11,207	7,166
Debt securities	68,657	3,287	10,318	22,744	32,308
Subordinated debt	363	1	8	329	25
Derivative liabilities	25,491	307	1,053	4,125	20,006
Pension provision	2	-	-	-	2
Provision for deferred income tax	12	-	-	12	-
Income tax	31	31	-	-	-
Other liabilities	53	46	7	-	-
Accruals	6	3	3	-	-
Equity	1,902	-	-	-	1,902
Total liabilities as at 31 December 2021	**119,457**	**3,817**	**11,454**	**38,905**	**65,281**

(in millions of euros)	Total	<3 months	3-12 months	1-5 years	>5 years
31 December 2020					
Assets					
Cash, cash equivalents and deposits at the Central Bank	9,857	9,857	-	-	-
Banks	9,580	-12	13	86	9,493
Loans and receivables	75,919	2,298	6,260	16,654	50,707
Interest-bearing securities	5,828	355	1,649	1,406	2,418
Intangible assets	6	-	-	6	-
Tangible assets	5	-	-	2	3
Income tax	-	-	-	-	-
Derivative assets	15,218	392	587	2,909	11,330
Other assets	30	24	1	-	5
Prepayments and accrued income	-	-	-	-	-
Total assets as at 31 December 2020	**116,443**	**12,914**	**8,510**	**21,063**	**73,956**
Liabilities					
Banks	4,699	55	172	504	3,968
Funds entrusted	17,722	376	15	10,288	7,043
Debt securities	72,483	7,672	7,748	24,576	32,487
Subordinated debt	372	1	8	286	77
Derivative liabilities	28,829	477	1,424	4,915	22,013
Pension provision	3	-	-	-	3
Provision for deferred income tax	14	-	-	14	-
Income tax	11	11	-	-	-
Other liabilities	91	29	62	-	-
Accruals	3	1	2	-	-
Equity	1,827	-	-	-	1,827
Total liabilities as at 31 December 2020	**126,054**	**8,622**	**9,431**	**40,583**	**67,418**

Liquidity Coverage Ratio

One of the limits 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 185% at the balance sheet date (2020: 150%).

Net Stable Funding Ratio

The Net Stable Funding Ratio (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% applies. At year-end 2021, NWB Bank met this requirement with a ratio at balance sheet date of 133% (2020: 122%).

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 bank's risk management system. Clear and efficient lines of communication to the supervisory authority are also important. During the COVID-19 pandemic, the bank was in close contact with the JST to provide it with information. The bank did this through regular appointments, among other things.

The Supervisory Review and Evaluation Process (SREP) takes place every year, during which the supervisor assesses the bank's risks. The SREP decision, which the bank receives from the supervisor at the end of the process, sets out the main objectives the bank must achieve to address the identified issues. Owing to the pandemic, the supervisor conducted a pragmatic SREP in 2020. This means no official SREP decision was taken; rather, observations about the past year and recommendations were shared in a so-called operational letter. A comprehensive SREP was carried out again in 2021, however. Furthermore, last year, as part of its supervisory task, the ECB conducted an on-site inspection of credit risk management of both riskweighted and solvency-free exposures. The final findings were received in January 2022 and we are working on an adequate follow-up.

In 2021, NWB Bank participated in the European Banking Authority (EBA) stress test for the first time. In 2022, another sector-wide stress test will be carried out, this time focusing on climate risks.

Each year, the bank updates its Recovery Plan, partly based on the findings of the annual SREP and the ECB's recommendations. In the recovery plan, a bank describes the measures it can take to stay afloat in a financial crisis. Every bank is required to have such a plan. NWB Bank believes it is important to think carefully about the crisis management organisation and the recovery measures available for such extreme circumstances.

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 late 2020, the SRB decided it will continue 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.

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 standardised 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 NWB Bank's 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.

The calculation of the Tier 1 ratio as at the reporting date is as follows:

	2021	2020
Equity excluding profit for the current financial year	1,781	1,746
Intangible assets	-6	-6
Prudential filters	-12	-10
CET 1 capital	**1,763**	**1,730**
Additional Tier 1 capital	320	320
Tier 1 capital (A)	**2,083**	**2,050**
Weighted credit risk (SA)[1]	3,150	2,758
Capital requirement pursuant to CVA (SA)[1]	1,150	714
Weighted operational risk (SA)[1]	342	361
Risk-weighted assets (B)	**4,642**	**3,833**
Tier 1 ratio (A/B)	**45%**	**50%**

1) Standardised Approach

At the end of 2021, visible equity totalled €1,781 million (excluding profit for the current financial year) towards €1,746 million at year-end 2020 (excluding profit for the current financial year). CET 1 capital, including Additional Tier 1 capital, amounted to €2,084 million at year-end 2021 (excluding profit for the current financial year) towards €2,050 million at year-end 2020 (excluding profit for the current financial year). The bank's total risk-weighted assets rose from €3,833 million at the end of 2020 to €4,641 million at the end of 2021. This rise is primarily the result of an adaptation of the SA CRR, as a result of which more capital needs to be reserved for counterparty credit risk, including CVA, for derivatives.

The ECB conducted a regular SREP again in 2021, in which the capital requirements for NWB Bank were reassessed. The bank-specific Pillar 2 capital requirement was changed from 2.25% to 2%. The total SREP capital requirement for NWB Bank is 10%. This is the sum of the total Pillar 1 capital requirement of 8% and the Pillar 2 capital requirement of 2.%. Together with the required capital conservation buffer of 2.5%, the total capital requirement for the bank amounts to 12.5%.

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 of the pandemic, the ECB declared 'exceptional circumstances' last year, so cash, cash equivalents and deposits with the Central Bank could be excluded from the leverage ratio until 27 June 2021. This measure was subsequently extended to late March 2022. As a result, the leverage ratio at the balance sheet date, including cash, cash equivalents and deposits, was 14.3% (excluding profit for the financial year less dividend).

Additional information about NWB Bank's risk management policy can be found in the Pillar 3 reports at www.nwbbank.com/en/about-nwb-bank/publications. These reports are not part of the audit.

36 EVENTS AFTER BALANCE SHEET DATE

At the time of preparing the financial statements, the current war in Ukraine and its effect on the international capital market had little to no negative impact on our bank. We have no direct exposure to Ukraine, Russia or Belarus. There are no other significant events after the balance sheet date that need to be disclosed.

37 PROPOSED PROFIT APPROPRIATION

The profit for the reporting year amounted to €121.5 million (2020: €80.5 million). The share of profit available for dividend has been set at €50 million (2020: €45 million) by the Managing Board and Supervisory Board. This decision was made in accordance with Article 21 of the Articles of Association.

		2021		2020
Profit for the year		**121,462**		**80,500**
The proposed profit appropriation is as follows:				
Cash dividends on A shares	733%	42,535	659%	38,281
Cash dividends on B shares	733%	7,465	659%	6,719
		50,000		**45,000**
Added to the reserves on the approval of the Supervisory Board		71,462		35,500
		121,462		**80,500**

In response to the ECB's urgent recommendations of 27 March and 27 July 2020 (ECB/2020/19 and ECB/2020/35), in connection with the COVID-19 pandemic, the bank postponed the payment of dividends. The shareholders have shown understanding for this decision.

In line with recommendation ECB/2020/62 of 15 December 2020, the bank paid €8.1 million in dividends for 2019 to our shareholders in early March 2021. The remaining 2019 dividend of €46.9 million and the 2020 dividend was paid out in October 2021, in line with the ECB's announcement in early July 2021.

The dividend proposed in the 2021 and 2020 financial statements adopted by the General Meeting of Shareholders is recognised in other reserves.

38 MANAGING BOARD AND SUPERVISORY BOARD

Managing Board

Lidwin van Velden
Melchior de Bruijne
Frenk van der Vliet

Supervisory Board

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

The Hague,18 March 2022

OTHER INFORMATION

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INDEPENDENT AUDITOR'S REPORT

To: the shareholders and Supervisory Board of Nederlandse Waterschapsbank N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2021 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the financial statements 2021 of Nederlandse Waterschapsbank N.V. ('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 2021 and of its result and its cash flows for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of income for 2021;
- the notes comprising a summary of the significant 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.

INFORMATION IN SUPPORT OF OUR OPINION

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of NWB Bank

NWB Bank is a bank of and for the public sector in the Netherlands, providing financing to water authorities, municipalities and provinces as well as to other public sector institutions such as housing associations and healthcare institutions which are guaranteed (indirectly) by the Dutch State. NWB Bank is also involved in financing Public-Private Partnerships (PPP) and renewable energy projects and government-backed export financing. We paid specific attention in our audit to a number of areas driven by the operations of NWB Bank and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors in order to design audit procedures responsive to those risks and 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, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We were forced to perform our procedures related to the audit of the 2021 financial statements to a great extent remotely due to the Covid-19 measures. In order to compensate for the limitations related to physical presence and direct observation, we extensively used communication technologies and written information exchange to obtain the audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€19 million (2020: €18 million)
Benchmark applied	1% of equity
Explanation	Based on our professional judgment, a benchmark of 1% of shareholder's equity is an appropriate quantitative indicator of materiality as it best reflects the financial position of NWB Bank. We determined materiality consistently with the previous financial year.

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 €1 million, 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.

Teaming and use of specifalists

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a bank. We included specialists in the areas of IT audit, forensics, and income tax. Furthermore, we have made use of our own experts in the areas of the loan loss provisioning, valuations of derivatives, hedge accounting, employee benefits, fair value disclosures and capital requirements.

Our focus on climate risks and the energy transition

Climate change and the energy transition are emerging topics and lead to significant change for many businesses and society. The Managing Board has reported in chapter Report of the Managing Board section "The sustainable water bank: results and impact in 2021" and in chapter Risk Management section "Environmental, social and governance risk" factors directly and indirectly impacting NWB Bank's business, and its consideration of the impact of climate change including the potential impact of climate-related risks and taking into account related regulatory and supervisory guidance and recommendations.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the possible effects of the energy transition are materially impacting judgements, accounting estimates and significant assumptions applied by de NWB Bank, including those related to the estimation of expected credit losses. Furthermore, we read the other information included in the annual report and considered whether there is any material inconsistency between the non-financial information in chapter Report of the Managing Board section "The sustainable water bank: results and impact in 2021" and in chapter Risk Management section "Environmental, social and governance risk" and the financial statements. Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgements, accounting estimates or significant assumptions per 31 December 2021.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and 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, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the company and its environment and the components of the system of internal control, including the risk assessment process and the management board process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes. We refer to the risk management paragraph in section 3 of the annual report for the management board risk assessment, that includes the considerations for the potential for fraud.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due fraud is present. In our risk assessments we considered the potential impact of among other developments of key financial ratios, the business development and organizational changes.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls and when identifying and assessing fraud risks we presume that there are risks of fraud in revenue recognition. Among others we have evaluated accounting estimates and significant assumptions with possibly represent a risk of material misstatement, focusing in particular on key areas requiring judgment and significant accounting estimates, as disclosed in the section “Significant estimates and estimation uncertainties” in the section “General notes to the financial statements” in the financial statements. However, we concluded that this presumption is not applicable for revenue recognition by NWB Bank and the risks related to management override of controls did not require significant auditor’s attention in addition to the following fraud risk identified during our audit. We consider the risk of management override of controls related to determination of credit scores and staging within the ECL model for non-guaranteed exposures a fraud risk. We describe the audit procedures responsive to this fraud risk in the description of our audit approach for the key audit matter ‘Credit quality loan portfolio and expected credit loss provision’.

We considered available information and made enquiries of relevant executives, directors (including risk, compliance, internal audit and legal) and the Supervisory Board. The fraud risk we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Managing Board, inspection of the integrity risk analysis (SIRA), reading minutes, inspection of reports from risk, compliance and internal audit and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected the internal lawyers' letter and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. In case of potential non-compliance with laws and regulations that may have a material effect on the financial statements, we assessed whether the company has an adequate process in place to evaluate the impact of non-compliance for its activities and financial reporting and, where relevant, whether the company implemented remediation plans amongst which for client integrity. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our audit response related to going concern

As disclosed in the financial statements in the sections 'Covid-19' and 'Continuity' in the chapter "General notes to the financial statements" has the Managing Board made a specific assessment of NWB Bank's ability to continue as a going concern and to continue its operations for at least the next 12 months.

We discussed and evaluated the specific assessment with management exercising professional judgment and maintaining professional skepticism. We considered whether the Managing Board's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all events or conditions that may cast significant doubt on NWB Bank's ability to continue as a going concern and whether the company will continue to comply with prudential requirements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Based on our procedures performed, we did not identify serious doubts about the company's ability to continue as a going concern for the next 12 months.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause NWB Bank to cease to continue as a going concern.

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.

We have evaluated the fraud incident in 2021 in our audit of the 2020 financial statements and we do no longer consider this a key audit matter.

Credit quality loan portfolio and expected credit loss provision	
Risk	Loans and receivables are stated at amortised cost using the effective interest method, less a provision for impairment losses. NWB Bank uses the option, as allowed under Dutch Accounting Standards, to apply the IFRS 9 impairment requirements based on expected credit losses (hereinafter: 'ECL'). Impairment allowances represent NWB Bank's best estimate of expected losses. On 31 December 2021, the loans and receivables amount to € 70 billion, net of expected credit loss provision of EUR 1 million as disclosed in notes 11 and 32 to the financial statements. The provision for impairment is based on expected credit losses which includes parameters and assumptions such as the probability of default, the loss given default, the allocation of loans to stages and the use of macro-economic scenarios and forward-looking information. The appropriateness of loan loss provisions is a key area of judgment for the Managing Board. The identification of expected credit losses is an inherently uncertain processes involving assumptions and factors including the financial condition of the counterparty and expected future cash flows. The use of alternative modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. As part of our risk assessment we considered the potential risk of management override of controls and related to the determination of the credit rating and staging within the ECL model for non-guaranteed exposures. Given the inherent complexity of the application of IFRS 9 impairment requirements and the application of this standard, most predominantly in respect of the calculation of loan loss provisions using the expected credit loss methodology we considered this to be a key audit matter.
Our audit approach	We have obtained an understanding of the loan loss provisioning process and evaluated the design of internal controls across the processes relevant to the expected credit loss calculations as well as performing substantive procedures. This included the allocation of assets into stages, model governance, data accuracy and completeness, arrears management, multiple economic scenarios, journal entry testing and disclosures. With the support of our internal modelling specialists, we assessed the adequacy of the provisioning model used by NWB Bank and verified whether the model is adequately designed. We performed an overall assessment of the provision levels by stage to determine if they were reasonable considering the risk profile of the portfolio, credit risk management practices and the macroeconomic environment. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with IFRS 9 and tested a sample of loans on appropriate staging. We tested the data used in the ECL calculation by reconciliation to source systems. With the support of our internal economic specialists, we assessed the base case and alternative economic scenarios including the impact of Covid-19. This included challenging probability weights and the severity and magnitude of modelled downside scenarios, as well as assessing the sensitivity of primary drivers in the model calculations. Finally, we evaluated the completeness and accuracy of the disclosures in the financial statements relating to the provision for impairment losses in accordance with Part 9 of Book 2 of the Dutch Civil Code on credit risk.
Key observations	Based on our procedures performed we consider the provision for expected credit losses to be reasonable and found that the disclosures relating to the provision for expected credit losses, in all material aspects, meet the requirements of Part 9 of Book 2 of the Dutch Civil Code on credit risk.

Hedge accounting	
Risk	NWB Bank hedges most interest rate risks and foreign exchange risks related to financial assets and liabilities. For accounting purposes NWB Bank applies two types of fair value hedge accounting, micro and macro hedging. The application of hedge accounting enables the synchronization of the reported results for the hedging instrument and the hedged position, insofar the hedge is effective and the hedge relation is formally documented. NWB Bank has developed specific models to calculate hedge effectiveness. NWB Bank only uses derivatives as hedging instrument, measured at fair value on the balance sheet. Both the fair value adjustments of the hedged position related to the hedged risk and the fair value adjustments of the derivatives are recorded in statement of income as result from financial transactions including any resulting ineffectiveness. For the year ended 31 December 2021 NWB Bank recorded a hedge accounting ineffectiveness as disclosed in note 2 'result from financial transactions' of €0.2 million positive (2020: €4.9 million negative). The hedge accounting models used by NWB Bank to determine the effectiveness of the hedges is significant for our audit and therefore considered a key audit matter. The process, including the technical requirements that are applicable to the application of hedge accounting, is complex, highly subjective and based on assumptions.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of NWB Bank's hedge accounting policies in accordance with Part 9 of Book 2 of the Dutch Civil Code and Dutch Accounting Standard 290. We evaluated the design and tested operating effectiveness of the controls over the hedge accounting process. In our audit we have tested, on a sample basis, whether the hedge documentation meets requirements of Part 9 of Book 2 of the Dutch Civil Code and Dutch Accounting Standard 290. 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 evaluated the completeness and accuracy of the disclosures in accordance with Part 9 of Book 2 of the Dutch Civil Code and Dutch Accounting Standard 290.
Key observations	Based on our procedures performed no material findings were noted with respect to the adequacy of the hedge documentation and the hedge effectiveness tests. We found the disclosure on hedge accounting in accordance with Part 9 of Book 2 of the Dutch Civil Code and Dutch Accounting Standard 290.

Fair value measurement of derivatives	
Risk	Fair value measurement of derivatives and associated valuation adjustments can be a subjective area insofar model based valuations are applied due to lower liquidity and limited price availability. For a significant part NWB Bank has derivatives where no market prices are available, and in these cases, fair value is determined using valuation models based on observable market data. NWB Bank has derivative assets and derivative liabilities categorized as 'measurement based on models using market observable data' totalling €3.9 billon and €9.8 billion respectively (2020: €5.1 billon and €15.2 billion respectively) as disclosed in note 34 fair value of financial instruments. Due to the magnitude of derivatives measured at fair value and the inherent complexity of the valuation and the judgments applied by management we determined this to be a key audit matter for our audit.
Our audit approach	We evaluated the design and implementation and, where considered appropriate tested key controls related to the valuation process, including 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 amongst others logical user access regarding relevant applications. We have engaged our internal valuation specialists in order to challenge the methods and assumptions used for measuring the value of derivatives. 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 evaluated the completeness and accuracy of the disclosures relating to the derivatives measured at fair value.
Key observations	We have not identified any material misstatements regarding the measurement of derivatives as at 31 December 2021 and the related disclosures in the financial statements impacting our audit opinion.

REPORT ON OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and the other 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 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.

The Managing Board is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

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

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board 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, the Managing Board is responsible for assessing NWB Bank's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate NWB Bank or to cease operations or has no realistic alternative but to do so. The Managing Board should disclose events and circumstances that may cast significant doubt on NWB Bank's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

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

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

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

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Information in support of our opinion' section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, 18 March 2022

Ernst & Young Accountants LLP

signed by R. Koekkoek

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 non-financial information in the accompanying annual report for the year 2021 of Nederlandse Waterschapsbank N.V. (hereafter: 'NWB Bank') at The Hague. An audit is aimed at obtaining a reasonable level of assurance.

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

- the policy and business operations with regard to corporate social responsibility;
- the thereto related events and achievements for the year 2021

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

The non-financial information is included in the chapter 'Report of the Managing Board' and sections 'Risk management' (i.e. Environmental, Social and Governance risk) and 'GRI-index' of the annual report.

Basis for our opinion

We have conducted our audit on the non-financial 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 non-financial information of our report.

We are independent of NWB Bank in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence 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 non-financial information needs to be read and understood together with the reporting criteria. NWB Bank 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 non-financial information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in:

- the section 'Reporting standards non-financial information' of the annual report
- the document 'Rapport PCAF 2021 NWB Bank' as included on the website of NWB Bank (hereafter: PCAF Report 2021)

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Limitations to the scope of our audit

The non-financial information includes prospective information such as ambitions, strategy, plans, expectations and estimates and risk assessments. 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 non-financial information.

The results of the CO_2 emission equivalents loan portfolio are presented in the "Key Figures" section. Sources from external parties were used in the calculations. The sources used are explained in the PCAF Report 2021. We have not performed any work on the content of these external sources, other than assessing the suitability and plausibility of these external sources.

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

Our opinion is not modified in respect to these matters.

Responsibilities of the management board and the supervisory board for the non-financial information

The management board is responsible for the preparation of reliable and adequate non-financial 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 management board regarding the scope of the non-financial information and the reporting policy are summarized in the section 'Reporting standards non-financial information' of the annual report.

Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the non-financial information that are free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing the reporting process of NWB Bank.

Our responsibilities for the audit of the non-financial 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 skepticism throughout the audit performed by a multi-disciplinary team, in accordance with the Dutch assurance standards, ethical requirements and independence requirements.

Our audit included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the non-financial information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the management board
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the non-financial 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
- Evaluating the procedures performed by the internal audit department and the external subject matter expert of NWB Bank;
- Identifying and assessing the risks that the non-financial 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 non-financial 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 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 non-financial information;
  - Obtaining assurance information that the non-financial information reconciles with underlying records of the company
  - assessing the suitability and plausibility of the sources of external parties used for the calculations that form the basis of the CO_2 emission equivalents loan portfolio and which are explained in the PCAF Report 2021;
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the non-financial information
  - Performing an analytical review of the data and trends;
- Reconciling the relevant financial information with the financial statements;
- Evaluating the consistency of the non-financial 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 non-financial information
- Considering whether the non-financial 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, 18 March 2022

Ernst & Young Accountants LLP

Signed by drs. R.J. Bleijs RA

ARTICLES OF ASSOCIATION PROVISIONS GOVERNING PROFIT APPROPRIATION

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

Article 21

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

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

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

4. To the extent that the company has 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.

SUPPLEMENTARY INFORMATION

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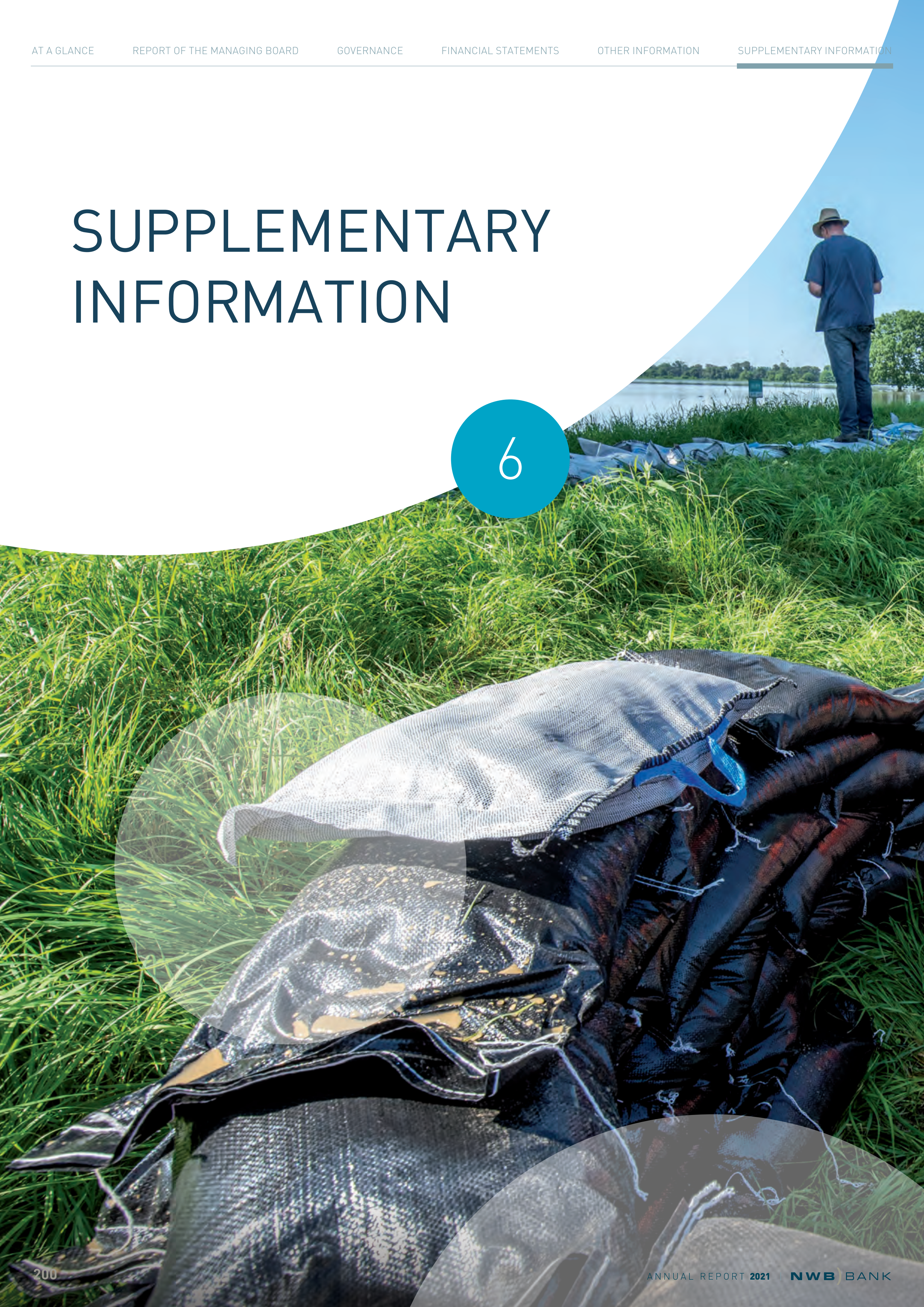

foto: Waterschap Limburg

REPORTING GUIDELINES FOR NON-FINANCIAL INFORMATION

The non-financial information can be found in the 'Report of the Managing Board' chapter (excluding the 'Risk management' paragraph) and the **'GRI index' section of the annual report (see page 204)**.

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 2021. 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 196)**.

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. A full overview of the relevant substantial criteria and (self-developed) performance indicators are included in the bank's **GRI content index. (see page 204)**

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.

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**.

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, labour rights, the environment and anti-corruption in its business processes. It also means that the bank will expect its stakeholders to comply with these principles, when possible and relevant. Further information on the implementation of these principles can be found in the ESG Facts and Figures report on NWB Bank's **website**.

Impact of lending on climate

General principles
To calculate the impact of our lending on the climate, we use the methodology of the Partnership for Carbon Accounting Financials (PCAF). PCAF provides a framework and harmonised methodology that increases transparency and awareness of greenhouse gas emissions (equivalents) and reporting on them. The Telos/Het PON research institute, which is affiliated with Tilburg University, has helped us to apply the PCAF methodology. Its use has been incorporated in the 2021 GHG Emissions report on the NWB Bank Loan Portfolio. The methodology in this document serves as the basis for the calculation.

Data quality
The quality of the data is an important element for calculating the emissions of our loan portfolio. The following scores apply for the calculation. See the methodology document for further details:

	Score
Housing associations	2
Municipalities	3
Water authorities	2
Healthcare sector	3
Drinking water companies	2
Regional governments	3
Educational institutions	2

PCAF distinguishes five levels of quality for emissions:
- Class 1 concerns individual emissions data or actual energy consumption data that has been audited.
- Class 2 concerns unaudited emissions data or other primary consumption data.
- Class 3 concerns average data specific to the sector or similar institutions.
- Class 4 concerns approximate data based on a region or country.
- Class 5 concerns rough estimates.

Methodology used
The share of NWB Bank's financing in the emissions of a client or project is calculated by multiplying the bank's share in that client or project's balance sheet by that client's total greenhouse gas emissions (equivalents). The emission data were derived or calculated from publicly available data from Statistics Netherlands, the Human Environment and Transport Inspectorate, the Water Authorities' Climate Monitor and the sustainability reports of the financed institutions. The calculation of the climate impact for 2020 is based on the loan portfolio as of 31-12-2019 and the calculation for 2021 is based on the loan portfolio as of 31-12-2020. This was chosen because the shifts in the portfolio from year to year are limited.

Limitations
There is still insufficient data available on the extent of the emissions avoided or negated as a result of projects we have financed. It was not possible to calculate Scope 3 emissions for housing associations. This would include emissions resulting from the construction (and major maintenance) of housing association properties. There are no calculations or data available to make a reasonable estimate of these emissions.

GRI CONTENT INDEX

GRI SUSTAINABILITY REPORTING GUIDELINES

Ref. no	Description	Page reference
Organisational profile		
102-1	Name of the organisation	**NWB Bank's profile**
102-2	Activities, brands, products and services	**NWB Bank's profile**
102-3	Location of headquarters	**General notes to the financial statements**
102-4	Location of operations	**NWB Bank's profile**
102-5	Ownership and legal form	**General notes to the financial statements**
102-6	Markets served	**Sustainable bank: results and impact in 2021**
102-7	Scale of the organisation	**Sustainable, efficient and socially committed organisation**
102-8	Number of employees (a to f not specified for privacy reasons)	**Sustainable, efficient and socially committed organisation**
102-9	Supply chain	**Value creation**
102-10	Significant changes to the organisation and its supply chain (not applicable in 2020)	**Sustainable, efficient and socially committed organisation**
102-11	Precautionary principle or approach	**Dilemmas**
102-12	External initiatives	**The world, Europe and the Netherlands 2021**
102-13	Memberships in associations and other advocacy organisations	**Our stakeholders**
Strategy		
102-13	Statement from senior decision-maker	**Interview with Lidwin van Velden**
102-15	Key impacts, risks and opportunities	**Risk Management**
Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	**Reporting standards**
Governance		
102-18	Governance structure	**Corporate governance**
102-19	Delegating authority	**Corporate governance**
102-20	Executive-level responsibility for economic, social and governmental topics	**Executive board**
102-21	Consulting stakeholders on economic, social and governmental topics	**Corporate governance**
102-22	Composition of the highest governance body	**Corporate governance**
102-23	Chair of the highest governance body	**Corporate governance**
102-24	Nominating and selecting the highest governance body	**Corporate governance**
102-25	Conflicts of interest	**Corporate governance**
102-38	Annual total compensation ratio	**Remuneration report**

Ref. no	Description	Page reference
Stakeholder engagement		
102-40	List of stakeholder groups	**Our stakeholders**
102-41	Collective bargaining agreement	**Remuneration report**
102-42	Identifying and selecting stakeholders	**Materiality analysis**
102-43	Approach to stakeholder engagement	**Materiality analysis**
102-44	Key topics and concerns raised	**Materiality analysis**
Reporting practice		
102-45	Entities included in the financial statements	**General notes to the financial statements**
102-46	Defining report content and topic boundaries	**Materiality analysis**
102-47	List of material topics	**Materiality analysis**
102-48	Restatements of information	**Key figures**
102-49	Changes in reporting	**Materiality analysis**
102-50	Reporting period	1 January 2021 - 31 December 2021
102-51	Date of most recent report	18 March 2021
102-52	Reporting cycle	Annualy
102-53	Contact point for questions regarding the report	**Colofon**
102-54	Claims of reporting in accordance with the GRI Standards	**Reporting standards**
102-55	GRI index	
102-56	External assurance	**Assurance report**
Management approach		
103-1	Explanation of the material topics and their boundaries	**Management approach, stakeholder dialogue and materiality analysis**
103-2	Management approach and its components	**Management approach, stakeholder dialogue and materiality analysis**
103-3	Evaluation of the management approach	**Management approach, stakeholder dialogue and materiality analysis**
Top 5 material subjects		
1	Availability of financing Own indicator: total lending in 2021	**Key player in financing the dutch public sector**
2	Safe, stable and efficient bank Own indicator: Financial ratios	**Sustainable, efficient and socially committed organisation**
3	Contributing to climate mitigation, climate adaptation and restoration of biodiversity Own indicator: volume of new lending to renewable energy projects	**Financing partner for enhancing sustainability in the Netherlands**
4	Climat impact of lending Own indicator: Carbon footprint loan portfolio	**Bank of and for the public water sector**
5	Facilitating safe, clean and sustainable surface water and drinking water Own indicator: volume of new lending to water authorities	**Financing partner for enhancing sustainability in the Netherlands**
6	Attract funding through ESG bonds Own indicator: volume of sustainable funding as % of new funding	**Financing partner for enhancing sustainability in the Netherlands**

Our own indicators have been applied because the GRI disclosures do not match the material subjects of NWB Bank.

LIST OF SHAREHOLDERS AS AT 1 JANUARY 2022

	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	**NWB Bank's Profile (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 engaged organisation (see page 60)**
	The results of the policies pursued	Yes	**Sustainable, efficient and socially engaged organisation (see page 60)**
	The principle risks of the bank's own operations and within the value chain	Yes	**Sustainable, efficient and socially engaged organisation (see page 60)**
	The management of those risks	Yes	**Sustainable, efficient and socially engaged organisation (see page 60)**
	Non-financial performance indicators	Yes	**Sustainable, efficient and socially engaged organisation (see page 60)**
Relevant environmental matters (e.g. impact of climate change)	The policies pursued, including due diligence	Yes	**Responsible and social return (see page 67)**
	The results of the policies pursued	Yes	**Responsible and social return (see page 67)**
	The principle risks of the bank's own operations within the value chain	Yes	**Responsible and social return (see page 67)**
	The management of those risks	Yes	**Responsible and social return (see page 67)**
	Non-financial performance indicators	Yes	**Responsible and social return (see page 67)**
Relevant subjects regarding respect for human rights (e.g. employee protection)	The policies pursued, including due diligence	Yes	**Reporting guidelines (see page 202)**
	The results of the policies pursued	Yes	**Reporting guidelines (see page 202)**
	The principle risks of the bank's own operations and within the value chain	Yes	**Reporting guidelines (see page 202)**
	The management of these risks	Yes	**Reporting guidelines (see page 202)**
	Non-financial performance indicators	Yes	**Reporting guidelines (see page 202)**

Subjects	Aspect	Added yes/no	Chapter/ Page reference
Relevant subjects regarding the fight against corruption and bribery	The policies pursued, including due diligence	Yes	**Risk management - Operational risk** (see page 113)
	The results of the policies pursued	Yes	**Risk management - Operational risk** (see page 113)
	The principle risks of the bank's own operations and within the value chain	Yes	**Risk management - Operational risk** (see page 113)
	The management of these risks	Yes	**Risk management - Operational risk** (see page 113)
	Non-financial performance indicators	Yes	**Risk management - Operational risk** (see page 113)
Insight into the diversity policy (Executive Board and Supervisory Board)	The policies pursued	Yes	**Corporate Governance (see page 101)**
	Diversity targets	Yes	**Corporate Governance (see page 101)**
	Description of how the policy is implemented	Yes	**Corporate Governance (see page 101)**
	The results of the policies pursued	Yes	**Corporate Governance (see page 101)**

GLOSSARY

SDG 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.

Attracting funding through ESG bonds
Optimum use of the issuance of sustainable (socially responsible investing) bonds.

Availability and affordability of financing
Provide financing on the most favourable terms possible to our (new) clients to keep the financial burden on citizens as low as possible.

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.

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

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.

Contribute to climate mitigation, climate adaptation and biodiversity recovery
Provide appropriate financing on the most favourable terms that contributes to climate mitigation, climate adaptation and biodiversity recovery, and initiate dialogue on these issues.

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

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.

Dividend payout ratio
Dividend payout compared to net profit.

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.

Facilitating safe, clean and sustainable surface and drinking water
Meeting the financing needs of water authorities and drinking water companies by providing appropriate financing on favourable terms and promoting innovation in the public water sector.

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.

Leverage ratio (adjusted for promotional assets)
The ratio of Tier 1 capital to the bank's (adjusted) balance sheet total. The promotional assets are removed from the balance sheet total.

Leverage ratio (not adjusted for promotional assets)
The ratio of Tier 1 capital to the bank's (adjusted) balance sheet total. The promotional assets are not removed from the balance sheet total.

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

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.

Net Stable Funding Ratio
The aim of the Net Stable Funding Ratio (NSFR) is to determine the extent to which longer-term assets are financed with more stable forms of funding.

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.

Promotional loans
Loan granted directly or through an intermediary lending institution on a non-competitive, non-profit-making basis by a public development finance institution or an entity created by the central government, regional government or local government of a Member State of the European Union to further the policy objectives of that Member State.

Safe, stable and efficient bank
Maintaining the bank's high-quality risk profile, strong capitalisation and efficient organisation to best implement the bank's strategy.

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.

Sustainable energy projects

Sustainable energy projects relate to energy from natural sources: sun, wind, soil and water. The National Green Fund has also been designated a sustainable energy project.

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.

Tier 1 capital ratio

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

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
AC	Audit Committee
AFM	Netherlands Authority for the Financial Markets
AGM	Annual General Meeting of Shareholders
ALCO	Asset & Liability Committee
AUD	Australian dollar
BCT	Business Continuity Team
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
CAD	Canadian dollar
CDD	Customer Due Diligence
CET1	Common Equity Tier 1
CHF	Swiss franc
CLA	Collective Labour Agreement
CP	Commercial Paper
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRS	Credit Risk Scores
CSA	Credit Support Annex
CSR	Corporate Social Responsibility
CSRBB	Credit Spread Risk in the Banking Book
CVA	Credit Valuation Adjustment
DGS	Deposit Guarantee Scheme
DNB	De Nederlandsche Bank (Central Bank of the Netherlands)
DV01	Dollar Value of one basis point
DVA	Debit Valuation Adjustment
EAD	Exposure at Default
EaR	Earnings at Risk
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
ECP	Euro Commercial Paper
EIB	European Investment Bank
EONIA	Euro OverNight Index Average
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority

Abbreviation	Description
€STR	Euro short-term rate
ExCo	Executive Committee
EY	Ernst & Young Accountants LLP
FSB	Financial Stability Board
GBP	British pound
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
HKD	Hong Kong dollar
HR	Human Resources
IAD	Internal Audit Department
IBOR	InterBank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
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
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LCRE	low credit risk exemption
LGD	Loss Given Default
LNV	Landbouw, Natuur en Voedselkwaliteit
MIS	Management Information System
MSCI	Morgan Stanley Capital International
NFRC	Non-Financial Risk Committee
NFRD	Non-Financial Reporting Directive
NHG	National Mortgage Guarantee
NII	Net Interest Income
NOK	Norwegian krone
NSFR	Net Stable Funding Ratio
NVB	Dutch Banking Association
NVKS	Nadere voorschriften kwaliteitssystemen (Regulations for quality management systems)
NZD	New Zealand dollar
ORM	Operational Risk Management
PAI	Price Alignment Index
PARP	Product Approval and Review Process

Abbreviation	Description
PBAF	Partnership for Biodiversity Accounting Financials
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of Default
PEPP	Pandemic Emergency Purchase Programme
PPI	premium pension institution
PPP	Public-Private Partnerships
QE	Quantitative Easing
RC	Risk Committee
RMBS	Residential Mortgage-Backed Securities
RVO	Rijksdienst voor Ondernemend Nederland (the Netherlands Enterprise Agency)
SB	Supervisory Board
SDE	Stimulering Duurzame Energieproductie (Stimulation of Sustainable Energy Production)
SDGs	Sustainable Development Goals
SEK	Swedish krona
SICR	Significant Increase of Credit Risk
SRB	Single Resolution Board
SPP	Strategic Personnel Planning
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSA	Sovereigns, Supranationals and Agencies
TCFD	Task force on Climate-related Financial Disclosures
TLTRO	targeted longer-term refinancing operation
USCP	US Commercial Paper
USD	American dollar
VAT	Value-Added Tax
WFZ	Waarborgfonds voor de Zorgsector (Healthcare Sector Guarantee Fund)
WSW	Social Housing Guarantee Fund (Social Housing Guarantee Fund)

PUBLICATION DETAILS

Design, editing and coordination production
NWB Bank
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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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NWB Bank prepared this Annual report in the Dutch language. The English translation was made for information purposes only. In the event of any inconsistencies or differences between the English translation and the original Dutch version of the Annual report 2021, the latter will prevail.