NWB BANK

# ANNUAL REPORT 2011

NEDERLANDSE WATERSCHAPSBANK N.V.

# The Delta Programme

Once more, the Netherlands is leading in terms of water management. The Dutch water boards, the Department of Public Works and other public authorities, the business community and knowledge institutions have joined forces to work on the Delta Programme, headed by a dedicated government commissioner. A new-style Delta Plan, the programme aims to cope with the effects of increasing extreme climate conditions to prevent catastrophes caused by water surpluses or shortages.

Delta Programme Commissioner Wim Kuijken acts as the central coordinator of the Delta Programme. In this Annual Report, he presents his views on this partnership's significance for society and the economy, as well as on the will to invest in preventing a disaster rather than fighting it. The main government partners in the programme, the Department of Public Works' director-general Jan-Hendrik Dronkers and managing director of the Dutch Association of Water Boards Albert Vermuë, also tell us about the ambitious programme, which should make the Netherlands the safest delta in the world.

# ANNUAL REPORT 2011

NEDERLANDSE WATERSCHAPSBANK N.V.

# Content

# Headline figures

| (in millions of euros) | **2011** [1] | 2010 [1] | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Long-term loans and advances | **45,474** | 43,172 | 40,172 | 35,934 | 31,992 |
| Equity | **1,188** | 1,135 | 1,048 | 1,047 | 1,091 |
| Total assets | **67,696** | 57,358 | 52,422 | 48,396 | 38,770 |
| Risk-weighted assets | **1,112** | 904 | 1,721 | 1,561 | 1,093 |
| **Results** | | | | | |
| Interest | **75** | 104 | 92 | 128 | 114 |
| Operating income | **113** | 134 | 90 | 26 | 107 |
| Operating expenses | **15** | 11 | 10 | 10 | 9 |
| Contribution to NWB Fonds | **0** | 2 | 4 | 4 | 4 |
| Income tax | **23** | 30 | 19 | 3 | 23 |
| Profit for the year | **75** | 91 | 57 | 9 | 71 |
| **Dividends** | | | | | |
| Dividend payment | **0.0** | 23.0 | 40.0 | 40.0 | 40.0 |
| Dividend per share in euros | **0** | 390 | 678 | 678 | 678 |
| **Ratios (%)** | | | | | |
| BIS Solvency ratio | **90.3** | 99.9 | 51.4 | 53.2 | 68.1 |
| Operating expenses/interest ratio | **20.0** | 10.6 | 10.9 | 7.8 | 7.9 |
| Dividend pay-out ratio | **0.0** | 25.3 | 70.2 | 100.0 [2] | 56.6 |
| Capital ratio | **1.8** | 2.0 | 2.0 | 2.1 | 2.7 |

1) Based on NL GAAP; other years based on IFRS-EU
2) Excluding payment of € 31 million charged to the general reserve

# Managing Board

## F.J. van der Vliet (1967)
Member of the Managing Board of NWB Bank since January 2012

**Portfolio**
lending, funding, asset & liability management, facility management

## R.A. Walkier (1953), Chairman
Joined NWB Bank in 1991, appointed to the Managing Board in February 1993, Chairman since April 2008

**Portfolio**
strategy, communications, HRM, legal affairs and compliance, Internal Audit Department

## L.M.T. van Velden (1964)
Joined NWB Bank in October 2008, member of the Managing Board since January 2010

**Portfolio**
finance, risk management, back office, ICT, security management, tax

# Management Team

R.A. Walkier, Chairman
L.M.T. van Velden
F.J. van der Vliet
M.N. Bauman, Human Resources Management
P.L. Bax, Back Office and Finance
A.G. van Eijl, Risk Management
A.R.L. Hoogendoorn, Internal Audit
G.L. Knoester, Public Finance
T.A.J.O. Meuwissen, Treasury
H.N.W. van Rooijen, Legal Affairs
M.H.J. Vaessen, ICT

# Employees



**Legal Affairs**
H.N.W. van Rooijen
J.A. Kramer
K.M. Petrici

**Treasury**
T.A.J.O. Meuwissen
E.F. Delis
B.R den Hoed

**Public Finance**
G.L. Knoester
W. Gokoel
P.C. Heymans

**Internal Audit**
A.R.L. Hoogendoorn
R.M. Gode
R.A. Holten

**Risk Management**
A.G. van Eijl
O.B. Bunnik
R. Versteeg

**Management Support**
J.M. van Dam
J. van Oostrom
V.A.L. Piket

**Human Resources Management**
M.N. Bauman
S.J. Verduin

**Security & Facility Management**
B.A. Kuipers
A.F. van der Kooij
J.J. Mahmoud
J.H. van Oostrom
D. Verdoes

**ICT**
M.H.J. Vaessen
A.W. Geers
R. Heemskerk
M.W. van der Meer
R. Storm

**Back Office and Finance**
P.L. Bax
M. Bakker
M.E. van den Berg
S.R. Bosman
D. Buck
B. van Eenige
A. de Jong
R. Kalloe
J.W. Kievith
A. van Koert
P.C. Kuiper
F. Montagne
S. Rijs
C.M.J. Verheul
B.A. van der Zalm

# Supervisory Board

### B.J.M. baron van Voorst tot Voorst (1944)[2)]

**First appointment** ends in 2013
**Last position held**
Queen's Commissioner of the Province of Limburg
**Relevant other positions:**
Supervisory Director of NIBA Beheer N.V.
Supervisory Director of Huco Handel- en Scheepvaartmaatschappij N.V.

### Professor R.G.C. van den Brink (1948)[3)4)]

**Position** Chairman
**Year of first appointment** 2002
**Term of office** ends in 2014
**Last position held:**
Chief Economic Adviser to the Managing Board of ABN AMRO
**Relevant other positions:**
Professor of Financial Institutions at the University of Amsterdam (UvA)
Supervisory Director of Akzo Nobel N.V.
Supervisory Director of Legal & General Nederland N.V.





### Professor A.F.P. Bakker (1950)[3)]

**Year of first appointment** 2012
**Term of office** ends in 2016
**Last position held:**
Executive Director of the International Monetary Fund
**Relevant other positions:**
Chairman of the Financial Supervision Authority for Curaçao and Sint Maarten
Chairman of the Financial Supervision Authority for Bonaire, Sint Eustatius and Saba
Professor of Monetary and Banking Issues at VU University Amsterdam

### P.C.G. Glas (1956)

**Year of first appointment** 2011
**Term of office** ends in 2015
**Principal position:** Water Reeve of Water Board De Dommel
**Relevant other positions:**
Chair of the Dutch Association of Water Boards
Board member of the Noord-Brabant Association of Water Boards
Member of the Recommendations Committee of the Association for Water Management and Land Use

## E.H. baron van Tuyll van Serooskerken (1940)

**Position:** Deputy Chairman
**Year of first appointment:** 2001
**Term of office:** ends in 2013
**Last position held:**
Dyke Reeve of Water Board Rijnland

## E.F. Bos (1959)[3]

**Year of first appointment** 2008
**Term of office** ends in 2012
**Principal position:** Member of the Executive Committee of PGGM N.V.
**Relevant other positions:**
Supervisory Director of Amvest Vastgoed B.V.
Member of the Supervisory Committee of Isala Klinieken
Supervisory Director of Stichting Waarborgfonds Eigen Woningen
Member of the Board of Sustainalytics B.V.
Board member of UN-PRI (United Nations Principles on Responsible Investment)

## Professor J.J.M. Jansen (1954)[4]

**Year of first appointment** 2010
**Term of office** ends in 2014
**Principal position:**
Member of the Advisory Division of the Council of State
**Relevant other positions:**
Deputy justice in the Tax Division of the Leeuwarden Court of Appeal

## V.I. Goedvolk (1944)[1]

**Year of first appointment** 2004
**Term of office** ends in 2015
**Last position held:**
Board member of Fortis ASR N.V.
**Relevant other positions:**
Supervisory Director of UCN N.V.
Member of the Board of Urenco Ltd.
Chairman of the Supervisory Board of Loyalis N.V.
Member of the Supervisory Committee of Waarborgfonds voor de Zorgsector

1) Chairman of the Audit and Risk Committee 2) Chairman of the Remuneration and Appointment Committee
3) Member of the Audit and Risk Committee 4) Member of the Remuneration and Appointment Committee

# Report of the Supervisory Board

## Financial statements; dividend and reserve policy

**We are pleased to present the 2011 Annual Report of NWB Bank. It contains the financial statements of the Bank, signed by the Managing Board and the Supervisory Board and audited and approved by KPMG Accountants N.V.**

**We propose that you adopt the 2011 financial statements as submitted. We further propose that you endorse the conduct of affairs by the members of the Managing Board and the supervision exercised by the members of the Supervisory Board in the past financial year.**





As announced in 2010, the Bank is forced to pursue a more stringent dividend policy, due to the introduction of the leverage ratio requirement as part of the implementation of the Basel III supervisory framework. The ratio means that, effective 2018, equity must equal at least 3% of total assets. In the coming years, the leeway for distributing dividend will to a large extent be determined by the introduction of the Basel III capital requirements. Following shareholder consultation and approval by the Supervisory Board, the Managing Board has decided to amend the Bank's policy concerning additions to its reserve. With effect from 2011, future profits are added to the reserve to the maximum extent possible as long as the leverage ratio is below the requirement. Should the authorities decide to lower the current leverage ratio requirement for NWB Bank in the future, the reserve policy may be reconsidered. More details can be found on page 16 in the Report of the Managing Board.

## Composition of the Supervisory Board

At the Annual General Meeting of Shareholders of 28 April 2011, Mr A.J.A.M. Segers stood down on reaching his maximum term of office.

Mr Segers had been a member of the Supervisory Board since 2000 and Chairman of the Remuneration and Appointment Committee since 2004. Furthermore, Mr Segers had been Deputy Chairman of the Supervisory Board with effect from 2005. We wish to thank Mr Segers for his efforts as Chairman of the Remuneration and Appointment Committee, the active role he fulfilled as a Supervisory Director and his close involvement with the Bank. Mr E.H. baron van Tuyll van Serooskerken has succeeded Mr Segers as the Board's Deputy Chairman. In accordance with the nomination of the Supervisory Board, the General Meeting of Shareholders filled the resulting vacancy by appointing Mr P.C.G. Glas, Water Reeve of Water Board De Dommel and Chair of the Dutch Association of Water Boards. Mr V.I. Goedvolk stood down by rotation during the Meeting. The shareholders reappointed him in accordance with the nomination of the Supervisory Board.

At the Annual General Meeting of Shareholders of 28 April 2011, the shareholders adopted the Supervisory Board's proposal to increase its membership from seven to eight, because the need was felt to extend financial expertise among the Board's members. At an Extraordinary General Meeting of Shareholders held on 24 November 2011, Professor A.F.P. Bakker, former Executive Director for the Netherlands of the International Monetary Fund, was appointed to the Supervisory Board with effect from 1 January 2012.

Ms E.F. Bos will stand down by rotation and be nominated for reappointment at the Annual General Meeting of Shareholders of 26 April 2012.

Sadly, we were informed in 2011 of the death of two former Supervisory Directors. Mr H. Rijpstra passed away on 7 April 2011. He was a member of the Bank's Supervisory Board from 1977 to

1989. We are grateful to Mr Rijpstra for the extensive management experience and expertise he brought to the Bank during all those years. Mr W. Werner passed away on 4 December 2011. He was a member of the Bank's Supervisory Board from 1982 to 1993. We are grateful for Mr Werner's clear analyses, proactive contributions and in-depth financial expertise.

We are of the opinion that the composition of the Supervisory Board is such that its members are able to operate critically and independently of one another and of the Managing Board. The overall profile for the composition of and appointment to the Supervisory Board sets out requirements in this respect. Besides satisfying the requirements set in the overall profile, newly appointed and reappointed Board members must satisfy the requirements listed in an individual profile. The Supervisory Board furthers its independent operations by ensuring the diversity of its composition in terms of such factors as age, gender, expertise and social background. Pursuant to a new act amending the rules for management and supervision, which is expected to take effect on 1 July 2012, all organisations must aim to achieve a minimum of 30% female membership of their executive and supervisory boards. The Supervisory Board seeks to achieve this target figure. All members of the Supervisory Board are independent within the meaning of the Dutch Corporate Governance Code.

## Composition of the Managing Board

At the Annual General Meeting of Shareholders of 28 April 2011, the shareholders resolved, at the Supervisory Board's proposal, to increase the Managing Board's membership from two to three, in response to the increased scope of the Bank's client services, as well as the increasing management requirements imposed on the Bank, e.g. in terms of governance and rules and regulations. To appoint the new Managing Director, a dedicated Appointment Committee was set up, whose members were Mr B.J.M. baron van Voorst tot Voorst (Chairman), Professor R.G.C. van den Brink and Mr V.I. Goedvolk. The Committee met on three occasions. A careful selection procedure was completed with the assistance of a recruitment agency. At an Extraordinary General Meeting of Shareholders held on 24 November 2011, Mr F.J. van der Vliet was nominated for appointment as Treasury and Public Finance Director. The Meeting appointed Mr Van der Vliet for a four-year term commencing 1 January 2012.

The Dutch Corporate Governance Code recommends that Managing Directors be appointed for a four-year term at a maximum, with the option of reappointment for further terms not exceeding four years. We will nominate the current Chairman of the Managing Board, Mr R.A. Walkier, for reappointment at the Annual General Meeting of Shareholders of 26 April 2012 on the basis of this best practice provision.

## Plenary meetings

The Supervisory Board met on eight occasions during the year under review. The attendance rate of the Board as a whole was 97.5%. Recurring items on the agenda of the meetings were the developments in the euro zone and in the financial markets, developments in the balance sheet and the financial results, lending, the Bank's funding, the report of the external auditor, strategic policy, risk management, the budget for 2012, the annual report and the half-year report, social policy and the reports of the Internal Audit Department (IAD), the Audit and Risk Committee, and the Remuneration and Appointment Committee.

Other topics considered during Board meetings included the meeting with shareholder representatives held on 14 February 2011, in which the Bank's dividend and reserve policy was discussed, as well as corporate governance, the Dutch Banking Code, the remuneration policy, the Managing Board's variable remuneration for 2010 and the performance contract for 2011, the composition of the Managing Board and the Supervisory Board, the vacancies for the positions of Managing Director and the eighth Supervisory Director, reports from the Appointment Committee, the Extraordinary General Meeting of Shareholders, compliance with the Insider Regulation in 2010, approving the authorisation schedules of the Treasury and Public Finance departments, the Dutch Central Bank survey of boardroom dynamics, the Board's self-assessment, the act amending the rules for management and supervision, the granting of powers of attorney, lifelong learning, management of interest rate risks, the accounting change from IFRS-EU to NL GAAP and the related update of the 2011 Debt Issuance Programme, the 2011 ICAAP and its review resulting from the accounting change, the Basel III migration plan, the contribution to NWB Fonds, the future of funds transfer services, credit risk management policy and stress scenarios.

The Supervisory Board assessed its own performance in March 2011 without the members of the Managing Board being present. The members of the Board considered whether their Board had the right expertise needed to fulfil its increased duties, concluding that having a fourth Supervisory Director from a financial background was desirable. Accordingly, at an Extraordinary General Meeting of Shareholders, it was proposed to appoint Professor A.F.P. Bakker to the Bank's Supervisory Board.

In August, the Supervisory Board approved the accounting change from IFRS-EU to NL GAAP with effect from 1 January 2011. During the period preceding the approval, both the Board and the Audit and Risk Committee had been closely involved in the preparations for the conversion, having gained an in-depth understanding of the differences between both accounting regimes. More details can be found in the 2011 half-year report and  on page 104 of this Annual Report.

Within the context of the Board members' lifelong learning programme, external advisors held various presentations, including on the accounting change from IFRS-EU to NL GAAP. In addition, one Board member attended a course for executive and supervisory directors at his own request. The Managing Board provided the Supervisory Board with up-to-date information and, where necessary, consulted the Supervisory Board on the policy to be pursued. The Supervisory Board was able to properly carry out its role as a supervisory body in the year under review and has expressed its confidence in the policy pursued. In addition, the Board once discussed, among other topics, the performance of the Managing Board, without its members being present. The Board will again evaluate its own performance, both as a board and as individuals, in the first half of 2012 under independent supervision of an external party.

## Audit and Risk Committee

The members of the Audit and Risk Committee are V.I. Goedvolk (Chairman), E.F. Bos and Professor R.G.C. van den Brink. With effect from 1 January 2012, Professor A.F.P. Bakker joined the Committee. In the year under review, the Audit and Risk Committee met nine times with the Managing Board, the external auditor and the internal auditor being present. A separate meeting was held with the external auditor and the internal auditor. General topics considered included the trends seen in the money and capital markets, financial results, the half-year and annual figures, the reports of the external auditor and the Internal Audit Department, the budget, risk management, the Bank's tax position and its credit risk and interest rate risk management policies. Furthermore, the following specific topics were discussed. The dividend and reserve policy, the 2010 IT scan performed by the Dutch Central Bank, measurement of the fair value portfolio, hedge accounting, changes to the accounting policies (conversion from IFRS-EU to NL GAAP), the 2011 ICAAP and its review resulting from the accounting change, various stress scenarios, analyses of the Bank's financial position and profitability, Basel III, the external auditor's fees, segregation of duties in the Bank and management reporting.

## Remuneration and Appointment Committee

The composition of the Remuneration and Appointment Committee changed when Mr Segers stood down at the Annual General Meeting of Shareholders of 28 April 2011. Mr B.J.M. baron van Voorst tot Voorst succeeded Mr Segers as the Chairman of the Committee. The vacancy resulting from Mr Segers' departure was filled by Professor J.J.M. Jansen. Together with Professor R.G.C. van den Brink, they now make up the Remuneration and Appointment Committee.

The Committee met three times in the year under review. The topics it discussed included variable remuneration of the members of the Managing Board for 2010 and the performance contract for 2011, the remuneration report, the assessment of lifelong learning in 2010, the individual profile, the appointment of the Treasury and Public Finance Director, the reappointment of Mr Walkier in 2012, remuneration of the members of the Supervisory Board, the rotation schedule with effect from 2012, the act amending the rules for management and supervision (including a restriction on the number of supervisory board memberships held) and the Extraordinary General Meeting of Shareholders.

## Remuneration policy

In response to the Restrained Remuneration Policy (Financial Supervision Act) Regulation 2011 (*Regeling beheerst beloningsbeleid Wft 2011*) issued by the Dutch Central Bank, an updated description of the remuneration policy governing NWB Bank's Managing Directors and staff has been prepared and approved by the Supervisory Board. This description has been posted on www.nwbbank.com. For further details, please refer to the Remuneration Report on page 48 of this Annual Report.

## Corporate governance

The Supervisory Board and the Managing Board bear responsibility for an appropriate corporate governance structure, including compliance with the Dutch Banking Code. The table presented on page 112 of this Annual Report illustrates how the Code's principles have been embedded in the Bank's operations. Furthermore, the Section on Corporate Governance on page 26 describes the steps taken in 2011 to implement the Code in comparison with the year before, as well as addressing other corporate governance topics.

## A word of thanks

The Supervisory Board wishes to thank the Managing Board and staff for the effort and commitment shown in the year under review. The Board expresses its appreciation for the results achieved in 2011, specifically against the backdrop of the turbulence seen in the financial arena.

The Hague, 8 March 2012

The Supervisory Board

R.G.C. van den Brink
E.H. van Tuyll van Serooskerken
A.F.P. Bakker
E.F. Bos
P.C.G. Glas
V.I. Goedvolk
J.J.M. Jansen
B.J.M. van Voorst tot Voorst

# Report of the Managing Board

## Economic developments

**In 2011, the sovereign debts crisis that escalated across the euro zone slashed the economic recovery that had been budding since 2009. The fourth quarter saw growth in many euro countries grind to a halt and projections for 2012 were adjusted to show zero growth or indeed slight contraction. Time and again, the European leaders proved incapable of convincing the market by closing hard and fast deals about enforcing stricter budget discipline and creating an adequate financial safety net to deal with periphery countries at risk of default. Confidence among financial market operators plummeted as a result.**





With many banks having only just begun recovering from the financial crisis in the wake of the Lehman collapse, the debts crisis further squeezed lending. Banks and corporations alike felt the need to plan ahead for a whole or partial breakdown of the euro. With US and Asian investors withdrawing from Europe, the euro dived against the US dollar, while interest rate spreads on bonds issued by weak euro countries went sky high. Greek interest rates, which had been just above 5% in January 2010, hit 32% at year-end 2011. Flight capital founds its way to the strong euro countries, which, conversely, saw capital market rates tumble. In the Netherlands, ten-year rates on government bonds slipped from 3.75% in April to 2.20% at year-end 2011, while the money market even saw rates on three-month treasury paper dip below 0%. Whereas the European Central Bank had raised interest rates twice on the back of economic recovery in the first half of 2011, it felt forced to reverse its optimistic interest rate policy later in the year, prompted by the surging euro crisis, with the refinancing rate ending the year at 1%. European summits failed to convince the markets that measures were adequate, and the ECB was effectively forced to act as a lender of last resort to the markets. It fulfilled that role by purchasing bonds from periphery countries on a massive scale. Concerns over the euro zone appeared to culminate, while confidence among banks and investors seemed to evaporate. Capital markets virtually dried up in the final months of 2011. Even the German government had to face what was effectively the failure of its government bond issue in November. Amidst widespread turmoil, the "summit of all summits" held by the partners in the euro zone in December appeared to win back some degree of trust in the political will to improve enforcement of budget discipline and provide more support through emergency funds, thereby putting a floor underneath the euro crisis. Likewise, the impressive liquidity support the ECB provided to the banking system in the form of €489 billion in three-year loans calmed the market down somewhat in December. It will become clear in 2012 whether these measures are sufficient to prevent the euro from drifting down any further.

In the run-up to the euro summit of December 2011, Standard & Poor's ("S&P") placed the credit ratings of the strongest euro countries, including Germany and the Netherlands, on "CreditWatch Negative". Subsequently, NWB Bank's S&P rating was given the same treatment in view of its status as a Government Related Entity and its integral link with the State of the Netherlands. Hence, NWB Bank's rating moves along with that of the State of the Netherlands. In January 2012, S&P confirmed the AAA ratings of the State of the Netherlands and NWB Bank, adding "Negative Outlook" for both. Moody's confirmed the Bank's Aaa rating in November 2011, leaving its stable outlook unchanged.

## Overview of financial results for 2011

Against the backdrop of the European debts crisis, NWB Bank was once again able to successfully fulfil its role as one of the major lenders to the Dutch public sector. In 2011, the volume of the Bank's new long-term lending totalled €5.1 billion, significantly below the €7 billion lent in 2010. The main cause of this decrease is the fact that housing corporations tapped substantially less from the capital market, having taken up significantly more in 2010 (€15.4 billion combined) compared with the €7.9 billion in 2011. Their frontloading had been inspired by the new EU rules on state aid, under which government guarantees no longer cover financing of commercial property by housing corporations. Of the Bank's total lending, housing corporations take the largest share, followed by municipal authorities, water boards and healthcare institutions. Lending to water boards was up as they anticipated their future financing requirements.

As disclosed in the 2011 half-year report, NWB Bank decided to switch from accounting policies under IFRS-EU to Dutch accounting policies ("NL GAAP") with effect from 1 January 2011 in order to better reflect its financial reality. To keep in line with the IFRS-EU system as closely as possible, it has chosen to state the loans portfolio at amortised cost while applying fair value hedge accounting, by analogy to IAS 39 Financial Instruments: Recognition and Measurement. This means there are only minor differences between applying NL GAAP and applying IFRS-EU. NWB Bank is convinced that, under the circumstances, applying NL GAAP is the best way to ensure that its financial statements give a true and fair view of its financial position and financial results.

NWB Bank's net profit landed at €75 million in 2011 (2010: €91 million). The 18% drop can be attributed chiefly to a fall in net interest income from €104 million in 2010 to €75 million in 2011. This was due in part to the one-off gains from the sale of loans in 2010. Additionally, the mitigation of interest rate risks achieved in previous years and squeezed interest margins caused by more expensive refinancing of outstanding loans weighed down net interest income. Finally, an increase in realised and unrealised results from financial transactions to €38 million (2010: €30 million) had a positive impact on net profit. To a significant extent, the results from financial transactions originates from fluctuations in the results caused by ineffectiveness of hedge relationships in the balance sheet. While the Bank applies hedge accounting to hedge balance sheet items effectively, it cannot be ruled out that material fluctuations in the results from financial transactions occur in any one year caused by hedge ineffectiveness. Such results are unrealised. The results of interim purchase and sales transactions are also booked to this item, as are value adjustments to assets that do not form part of the hedge portfolio.

NWB Bank considerably bolstered its funding position in the international capital market in 2011 by gaining access to US institutional investors. It did so by including what is known as the Rule 144A in its €50 billion Debt Issuance Program. Soon after the Program was launched, a number of issues were successfully placed in this market. The Bank raised a total of €7.7 billion in long-term funding in 2011, including five benchmark issues. This is below the €10 billion issued in 2010, owing to the lower volume of lending in 2011 and the adverse market conditions. Among other factors, the turbulence in the financial markets allowed NWB Bank to capitalise on the strong demand for commercial paper. On average, €8 billion in commercial paper was issued to the market.

Operating expenses were €15 million in 2011, significantly up from the €11 million seen a year before, largely fuelled by a number of major projects. These included the accounting change to NL GAAP, the design and fitting out of a data warehouse to enhance management information in terms of its process and quality, and the purchase of a new software release for the transaction processing system.

Total assets climbed substantially to reach €67.7 billion, up more than €10 billion. Of this increase, a mere €2.3 billion can be attributed to new lending. The lion's share in the growth in total assets was caused by the fair value increases of loans and swaps in the balance sheet. While fair value fluctuations are unrelated to the volume of lending, they can hugely impact balance sheet ratios, notably the capital ratios that relate equity to total assets as a measure of creditworthiness. The Bank's equity, which almost exclusively comprises Tier 1 capital, went up by €53 million to €1.2 billion in 2011. As the increase was outpaced by the growth in total assets, the capital ratio (equity expressed as a percentage of total assets) dipped to 1.8% at year-end 2011 (year-end 2010: 2.0%). Adjusted for the effect of fair value changes in the balance sheet, the capital ratio remained unchanged. The BIS solvency ratio is another key indicator of creditworthiness and a measure of credit-weighted risk inherent in a bank's assets and liabilities. At year-end 2011, NWB Bank's BIS solvency ratio stood at 90% (2010: 100%). This means the Bank boasts a considerable solvency surplus in excess of the minimum ratio of 8% prescribed by law. Its ample solvency reflects its solid profile, with its lending exposure being restricted almost entirely to the Dutch public sector. NWB Bank has never suffered losses on its outstanding loans, and its AAA ratings are a testimony to its high creditworthiness.

## Addition to reserve and dividend

In early 2011, NWB Bank decided that future profits would be added to the reserve to the maximum extent possible as long as the leverage ratio is below 3%, which is a Basel requirement. The leverage ratio represents Tier 1 capital expressed as a percentage of total assets (including specific off-balance-sheet items), and the requirement is expected to take effect in 2018. The Basel "one size fits all" approach results in a leverage ratio requirement that is inconsistent with business models and risk profiles of European public-sector banks. The EU process of enacting Basel III in the form of the Capital Requirements Directive IV ("CRD IV") is currently underway. There is still a chance of the final wording of the CRD IV offering specific parties such as public-sector banks more tailored treatment with respect to the leverage ratio. The requirement to maintain at least 3% in equity would result in excessive capitalisation for NWB Bank. Given its inherently low risk profile, this may lead to inefficient capitalisation.

Over the past eighteen months, NWB Bank has objected to the mandatory nature of the leverage ratio requirement with both the management of the Dutch Central Bank and Dutch and European politicians. The Managing Board will continue to bring its views to the attention of the authorities in the years ahead. It is now up to the European political arena, which is why NWB Bank is currently focusing on the wording of the CRD IV. Depending on the leeway the final legislation ultimately offers, the Bank may redefine and optimise its capital strategy.

NWB Bank's leverage ratio currently stands at less than 2%. In the run-up to 2018, the Bank's policy is geared to gradually approximating the 3% leverage ratio that is still expected to become mandatory as things stand now. Besides retaining future profits, the Bank will consider other options for increasing its leverage ratio in the years ahead.

Against this backdrop, the Managing Board has decided, following the Supervisory Board's approval, to add the €75 million net profit for 2011 to the general reserves in full, in accordance with Article 21, paragraph 2, subparagraph a of the Articles of Association. This means that, in accordance with Article 21, paragraph 2, subparagraph b of the Articles of Association, no profits will be at the disposal of the General Meeting of Shareholders to distribute as dividends.

## Outlook for 2012

Events in the financial markets will continue to be largely driven by the European debts crisis in 2012. The key question is whether political leaders will manage to restore the markets' trust in the euro, steering the financial markets to calmer waters. An insufficient return of confidence might trigger a deflationary downward spiral in the real economy that will also make itself felt outside Europe. The banks' role as financiers of economic growth will remain limited. Banks are still fully absorbed in revisiting their strategies and business models, taking new rules on board and bolstering their capital and liquidity buffers. At the same time, governments need to cut spending, which means they are restricted in their budgetary options to give fresh impulses to the economy.

NWB Bank expects the demand for loans among its customers in 2012 to be slightly below that seen in 2011. With uncertainty still running rampant across the euro zone, prices and interest rates remain potentially volatile. This may well affect the Bank's results. Barring extraordinary events, the Bank expects net interest income for 2012 to be roughly equal to that for 2011. The Managing Board refrains from making any statements on net profit, given the current uncertain financial markets. Net profit will at any rate be affected by the answer to the question whether and to what extent the introduction of the bank tax that has been announced applies to NWB Bank in 2012. The Bank has expressed serious objections to the bank tax in respect of the Dutch Minister of Finance, given its public-sector profile.

## Strategy

Ever since it was incorporated in 1954, NWB Bank has operated as a bank of and for the Dutch public sector. One of the major financial service providers in the public arena, the Bank, with its AAA ratings, aims to provide its clients with maximum access to funding at the lowest possible cost. It does to by leveraging its lean, efficient, high-quality and committed organisation, offering a high-quality portal to the financial markets and enabling it to bundle the finance requirements of its clients in the best possible way. Its position as a Bank whose shares are owned by Dutch public authorities only and the restriction of its lending operations to the public sector, both enshrined in its Articles of Association, safeguard its robust profile as a Dutch public-sector bank. It is this strategy, among other factors, that has enabled NWB Bank, throughout and following the financial crisis of 2008, to keep providing low-cost finance to its clients.

As a service provider, NWB Bank seeks to respond to the financial requirements of its clients in the best possible way. In response, the Bank has made investments in expanding its organisation, stepping up its account management aimed at professional borrowers. Where needed, our services will be further tailored and improved in the coming years.

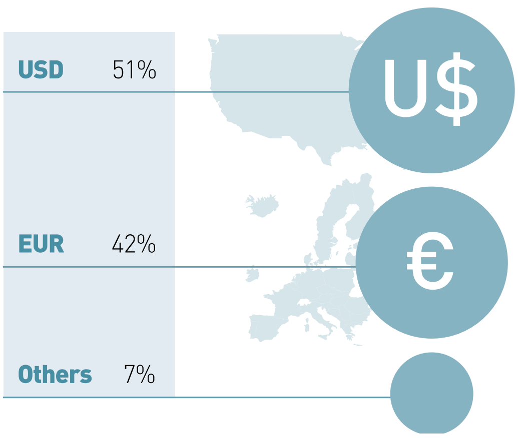
## Developments in 2011

### Funding

To fund its operations, NWB Bank uses a Commercial Paper ("CP") programme and a Medium Term Note ("MTN") programme to raise short-term and long-term funds, respectively, in the international money and capital markets. NWB Bank is able to raise funds from a large and diversified group of international investors on favourable terms thanks to the highest possible short-term (P-1/A-1+) and long-term (Aaa/AAA) credit ratings from Moody's and Standard & Poor's. It does so mainly by issuing debt securities under these programmes.

In 2011, the sovereign debts crises in the euro zone and the United States had a dramatic impact on the markets in which NWB Bank funds its operations. Lingering uncertainty among investors caused interest rates to fluctuate sharply, and issuing institutions had difficulties accessing the market. This was a factor in the lower volume of long-term funds raised in 2011, compared with 2010. NWB Bank raised long-term funding totalling €7.7 billion in 2011 (2010: €9.4 billion). As in 2010, maturities averaged 5.8 years. Of this amount, 51% was raised in US dollars and 42% in euros, with the remainder raised in Swiss francs, British pounds, Norwegian kroner and Swedish kronor. In 2011, NWB Bank issued five benchmark loans under its MTN programme. Two were in euros, with five and ten-year maturities, and three in US dollars, two of which have a three-year maturity, while the other one matures in five years.

### Long-term funding broken down by currency, 2011

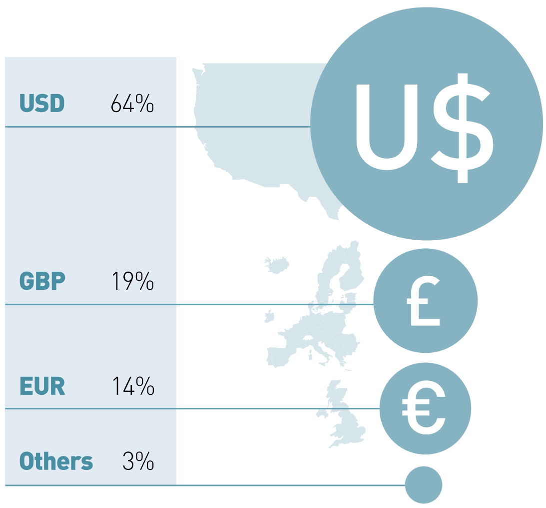



In the first half of 2011, the MTN programme was extended by including what is known as a 144A clause, which allows US institutional investors to subscribe for NWB loans. The clause has boosted USD loans and resulted in heightened interest and more favourable terms. Besides a further diversification of our investor base by including the United States, other investors have also shown greater interest, notably because loans with a 144A element are perceived as being more readily negotiable.

In previous years, issues in Swiss francs represented between 10% and 15% of NWB Bank's total funding, whereas they were only 2% in 2011. This was caused in part by the Swiss currency's appreciation and the response from the Swiss Central Bank ("SNB"). By putting a floor underneath the Swiss franc of CHF 1.20 against the euro, the SNB prevented the currency from appreciating any further, thus avoiding any resulting adverse effects on the Swiss economy. This made issuing debt instruments in Swiss francs and converting them into euros less attractive.

To raise money market funding, NWB Bank uses its CP programme, under which it issues debt instruments with maturities of up to one year. The average amount outstanding in commercial paper was some €8 billion in 2011, with maturities averaging four months. Of this amount, 64% was issued in US dollars, 19% in British pounds, 14% in euros and 3% in other currencies. With commercial banks suffering from a lack of confidence in their creditworthiness, NWB Bank, with its high creditworthiness as a public-sector bank, was again able in 2011 to issue commercial paper on highly attractive terms with substantial discounts from Euribor rates.

### Commercial paper broken down by sector, 2011



## Lending

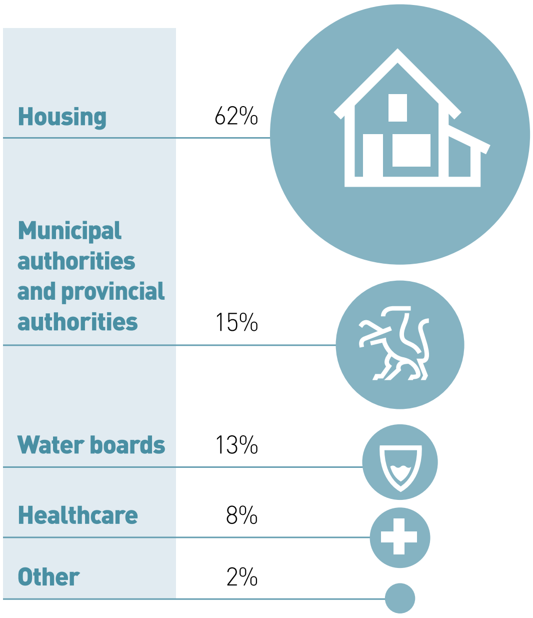
In fulfilling its core duty, which is to provide the Dutch public sector with finance at the lowest possible cost, NWB Bank once more played a prominent role in 2011. Besides providing these loans, the Public Finance Department aims to further expand and fine-tune its services.

At €5.1 billion, the volume of long-term lending was €1.8 billion down on 2010, chiefly due to a drop in demand for finance from housing corporations, which are the largest client category in the public sector. Whereas housing corporations had taken out a record €15.4 billion in loans guaranteed by the WSW guarantee fund in 2010, their demand dropped by almost half to €7.9 billion in 2011. The sharp decline had been expected because, in taking out loans in 2010, the housing corporations had anticipated their actual finance requirements for 2011 and 2012. Their frontloading of (re)financing had been prompted by the implementation of the EU's Decision on state aid on 1 January 2011, as well as the expectation at the time that interest rates would go up.

The spreads covering credit and liquidity risks, which the Bank faces when raising funding, increase in step with a loan's maturity. Accordingly, spreads on long-term funding are significantly higher than those on shorter maturities. This eliminates part of the benefit associated with the historically low long-term interest rates. By offering loans whose spreads will be reset in the near future, NWB Bank affords its clients the opportunity to benefit from the low absolute interest rates without the need to fix the current high spreads for the entire term of the loan. This type of loan, referred to as a "basisrentelening" loan, was again in high demand in 2011.

The chart illustrates lending in 2011, broken down by sector.

### Lending broken down by sector, 2011






## Water boards

The share of water boards in the Bank's total lending portfolio rose in 2011. Traditionally, NWB Bank is the largest lender to this sector by far. Given the historically low yield curve, a number of water boards anticipated interest rate risks inherent in their future finance requirements, taking out loans with future payment dates. Besides taking out conventional long-term fixed-interest loans, water boards also took out many "basisrentelening" loans, as did many clients in other sectors.

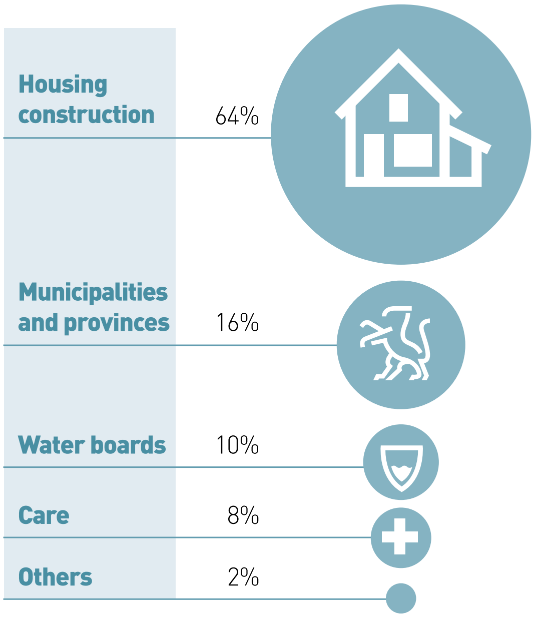
## Social housing

Combined, the two Dutch public-sector banks held a share of 89% in the total market for lending to the social housing sector in 2011. The large market share suggests that attempts from the sector to encourage more credit institutions to enter the market for loans guaranteed by the WSW guarantee fund have thus far borne little fruit. Although housing corporations have attracted growing interest from Dutch and foreign commercial banks over the past few years, the supply of finance has not widened.

Since commercial banks have seen their cost of funding rise, they are interested almost exclusively in interest rate derivatives. In anticipation, housing corporations have started using interest rate swaps (under which a fixed rate of interest is paid and a variable rate received). It is estimated that a quarter of housing corporations have derivative financial instruments in their books, albeit to a limited extent in many cases. Some housing corporations, however, manage their treasury operations more actively. They do so by breaking the link between interest rate management (using derivatives) and taking out loans. When taking out loans, the payment of credit spreads that make loans more costly may be avoided, for example by taking out a loan with a short maturity, such as a short-term roll-over loan. An interest rate derivative can then be used to fix a longer interest rate period. With the low level of absolute interest rates seen in the past period, notably for long maturities, many parties consider this an attractive option. Derivative financial instruments may, however, involve collateral requirements – usually referred to as margin requirements – due to interest rate fluctuations. Collateral arrangements serve to mitigate both parties' counterparty risk. Given that the WSW guarantee fund provides no guarantees for derivative financial instruments, the amount in cash required may be substantial and volatile, as collateral (usually cash) must be provided to the bank with which the swap was concluded as soon as interest rates fall. The amounts involved may be significant, because the interest rate periods are usually long. To eliminate cash availability problems, NWB Bank acquired derivatives portfolios and associated margin requirements from a number of clients in 2011, providing loans in exchange. The derivatives were included in the Bank's own derivatives portfolio, serving to hedge the interest rate risk on the loans it has provided. This enabled the housing corporations involved to terminate their derivatives positions and return to conventional loans.

NWB Bank's market shares in the various sectors it serves held up well at high levels. On a cash flow basis, the long-term lending portfolio grew to €45.5 billion at year-end 2011 (year-end 2010: €43.2 billion). The chart illustrates the lending portfolio's breakdown by sector.

### Lending portfolio broken down by sector, 2011




The chart clearly shows the large share of housing corporations in the Bank's lending portfolio. Likewise, they are the largest sector by far in the public sector as a whole. The housing corporations' high investment levels were reflected over the past decade in a growing need for external finance, which is why NWB Bank provides most of its long-term loans to this sector. For a number of years now, housing corporations have had difficulties selling homes in an already depressed housing market. Furthermore, their inflation-adjusted rental income is under pressure and internal offsetting between letting and selling is hampered. The new government scheme known as the interim regulation, which took effect on 1 January 2011, does not give housing corporations any wider access to finance either. The regulation defines a number of rules governing permitted state aid to housing corporations and sets stricter requirements for assets financed subject to

WSW guarantees. In the light of these trends, housing corporations expect significantly lower investment levels in the years ahead, causing their financing requirements to drop further.

### Municipal and provincial authorities

Most provincial authorities still enjoy robust liquidity positions caused by the sale of their equity stakes in utility companies in previous years. Conversely, municipal authorities appear unable to weather the economic crisis unscathed. As the housing market stagnates, land sales come to a halt, causing the associated cash inflows to dry up. Furthermore, lower-tier local authorities are forced to cut costs owing to the national government's austerity policy. The share of municipal and provincial authorities in the Bank's lending edged down to 15% in 2011 (2010: 17%).

### Healthcare sector

At 8%, the share of the healthcare sector in NWB Bank's lending portfolio was unchanged from 2010. Market forces now play a role in the sector, with patients and insurers defining the provision of healthcare to a larger extent. In addition, hospitals may well be allowed to distribute profits in the future. Both trends will be a factor in the healthcare sector's future financing requirements.

## Risk management

NWB Bank's most important risk categories are interest rate, liquidity, credit and counterparty risks. The Bank adopts a very prudent policy towards these risks. A description of the systems used to manage the various categories of risk is contained in the "Risk management" section of the financial statements.

In conformity with the Dutch Banking Code, the Bank's risk appetite was updated under the Managing Board's responsibility and approved by the Supervisory Board. This documents the degree and areas of risk NWB Bank is prepared to accept in realising its strategic objectives. The risk appetite is reviewed annually and whenever significant events warrant such a review.

### Credit risk

NWB Bank's borrowers are mainly public authorities and institutions to which funds are lent under the guarantee of public authorities. In addition, the Bank has a small securities portfolio at its disposal comprising mainly bonds issued or guaranteed by the Dutch public authorities. Throughout 2011 and indeed throughout its history, NWB Bank has never suffered a loan loss.

In the year under review, loan applications were handled in conformity with the Bank's credit risk management policy, giving consideration to the large exposures in the portfolio of government-guaranteed loans to the housing corporations and healthcare sectors.

Transactions the Bank enters into with financial counterparties, such as interest rate and currency swaps and money market issues, give rise to counterparty risks. These are confined by imposing limits and using a framework of standard requirements, as well as by concluding risk-mitigating netting and collateral agreements with financial counterparties.

### Interest rate risk

In 2011, the duration of the fair value of equity rose slightly. To assess its short-term interest rate risk, the Bank uses the Earnings at Risk measure. This is a simulation measure, comparing the expected net interest income or loss for the next twelve months under various interest rate scenarios with the outcome of a baseline scenario.

### Liquidity risk

Our long-term liquidity position is assessed on the basis of the standard for the funding requirement at any point in the future, which was introduced in 2008. In 2011, in order to be able to meet this new standard within the set transitional period applying through 2013, the Bank raised additional long-term funding. Supplementary stress tests were performed in the year under review to gain a further understanding of the potential impact extreme circumstances in the money and capital markets may have on the Bank's profitability. Their results show that the Bank is able to withstand the various stress tests with ease.

### Solvency

In 2011, NWB Bank complied with all the capital requirements imposed internally and by supervisory authorities. At year-end 2011, NWB Bank's solvency ratio as defined under the Basel II supervisory regime stood at 90.3% (2010: 99.9 %[1]). It seeks to maintain the best possible credit rating, which is that of the State of the Netherlands. Rating agencies Moody's and Standard & Poor's (S&P) confirmed our AAA ratings in their annual assessments. As in previous years, the highest possible ratings were based on the Bank's robust financial position, the quality of its shareholders and the reliability of its borrowers.

While confirming the AAA rating, S&P placed the Bank on "negative outlook", in common with the State of the Netherlands. S&P qualifies NWB Bank, a public-sector bank, as a Government Related Entity ("GRE") with an exceptional high likelihood of "extraordinary government support", which links the Bank's rating to that of the State of the Netherlands.

### Basel III

At the request of the Dutch Central Bank, NWB Bank prepared a migration plan for conversion to the Basel III regime in 2011, which requires banks to maintain stricter solvency, leverage and liquidity standards. The plan sets out a phased implementation process according to the timelines the Basel Committee (BCBS) has prescribed. During the year under review, the Dutch Central Bank started monitoring the progress banks are making in implementing their migration plans.

NWB Bank's migration plan focuses particularly on the leverage ratio, which expresses equity as a percentage of total assets. The Basel III accord proposes introducing a minimum leverage ratio of 3%. This requirement will be in place from 2018 onwards. Against the backdrop of this regulatory requirement, the Managing Board, with the approval of the Supervisory Board, decided to change the Bank's reserve policy with effect from 2011.

In 2011, the European Commission took steps aimed at incorporating the requirements set under the Basel III accord into EU legislation by proposing the Capital Requirements Directive IV ("CRD IV"). For the moment, the CRD IV does not set a minimum leverage ratio. The European Banking Authority ("EBA") has been requested to study to what extent such a requirement is appropriate given the various business models banks use.

## Employees

In 2008, NWB Bank embarked on a new direction, one from a hierarchical organisation to a flat network organisation, as the need was felt to place more focus on sharing knowledge rather than receiving it and to concentrate on mutual collaboration, information exchange, a sense of responsibility, risk awareness and involvement in the Bank's policy and strategic objectives. A specific response to part of that need, the Management Team ("MT") has been up and running for almost two years now, representing all disciplines in the Bank, as well as the Managing Board. The Bank's employees have access to the minutes of the MT meetings, which are posted on the intranet. This reflects the Bank's efforts to achieve open and transparent communications.

In early 2011, the employees started work in their

[1]) Restated on the basis of NL GAAP

new workplaces, following a refurbishment of the office building. The change in physical and "mental" internal environments prompted the Bank to instruct the Health and Safety Service to perform a risk assessment, which showed that both the building and the workplaces were appropriately laid out, in accordance with health and safety standards.

In addition, an employee satisfaction survey was held in the year under review. The outcome gives a favourable picture in terms of the positive energy employees gain from their work. A number of aspects offer scope for improvement, such as the lack of opportunities to meet informally and the degree of autonomy at work. The Bank will consider these aspects in 2012.

Besides technical training, employees were offered the opportunity to participate in in-house training on such areas as time management and project-based working methods.

At year-end 2011, the workforce numbered 43 employees (38.7 FTEs), including the members of the Managing Board, 26 of whom are male and 17 female.

For NWB Bank, 2011 was an extraordinary year, in which everyone put in extra effort. Among other issues the Bank faced were the accounting change from IFRS-EU to NL GAAP, extending the EMTN program by including the 144A clause offering access to the United States, setting up the Public Finance Department aimed at improving our services to borrowers, enhancing and shoring up the ICT systems and processes, expanding and tightening risk management and dealing with the multitude of governance requirements, compliance and new regulations. The Managing Board wishes to express its gratitude to all employees for the commitment and involvement they showed in their work in 2011.

Wim Kuijken,

Delta Programme Commissioner

# "It used to take a disaster to get the funds. Now we have the funds to prevent one."





**Wim Kuijken's job is one of a kind in the world – he is Delta Programme Commissioner, a government commissioner coordinating the Delta Programme. The programme itself is nothing short of a trail-blazing venture. Historically, it used to take a disaster to get measures off the ground, but nowadays, the Dutch government is investing in disaster prevention. It is the Delta Programme Commissioner's job to drive home the programme's urgency to all government authorities and agencies involved, while a disaster still seems a far way off.**

"The Delta Programme was set up in response to the recommendations of the Veerman Committee. It follows on from the post-1953 Delta Plan, although it's more than a plan - it should result in plans. On 1 January 2012, the Dutch Delta Act took effect, which lays down financing arrangements through the Delta Fund and describes my job. Its aim is to safeguard water safety and fresh water supply."

"The Veerman Committee looked at the question whether this nation could survive under such extreme conditions as a 1.30 metre rise in the sea level. The Delta Programme is based on more realistic scenarios from the CPB Netherlands Bureau for Economic Policy Analysis and the Royal Netherlands Meteorological Institute. We try to make the solutions we propose as flexible as possible, so that we can adjust measures to measurements."

"The IJsselmeer Dam (*Afsluitdijk*) and the Delta works are typical examples of 'hard' solutions. Following the problems we had with high water levels in our rivers in the mid-nineties, we incorporated other elements, that are more natural, in our plans, such as 'Room for the River'. The Delta Programme combines both.
We are keeping or bringing protection levels up to standard and assess them every six years, as well as making preparations for whatever must be done after that to cope with the rising sea level, the increasing extreme conditions in our rivers and in terms of precipitation. Wherever possible, we attempt to find solutions in terms of spatial lay-out – integrating dykes within cities, such as with the Scheveningen boulevard, and creating sand motors on the coast, allowing nature to take over. Not forgetting innovative technologies using sensors to find out what exactly is going on inside a dyke."

'The Delta Programme creates a renewed focus on our home market. Protecting our nation and its economy leads to increased domestic spending.'



"The innovative strength that our 'Top Sector Water' produces is of fundamental importance in economic terms as well. In addition to prestigious projects abroad, the Delta Programme creates a renewed focus on our home market. Protecting our nation and its economy leads to increased domestic spending as well as safeguarding our agricultural sector and creating opportunities for innovation. It used to take a disaster to get the funds. Now we have funds set aside to prevent one."

"The previous Dutch Cabinet came up with the idea of setting up the Delta Fund as a source of funding for the Delta Programme. The current Cabinet set aside €1.25 billion, which includes funds earmarked for management and maintenance of dykes and dams owned by the Department of Public Works. The work we're doing now takes up most of that amount, but there will be some scope for different things after 2020. We're looking quite far ahead and have set our horizon at 2050, in some cases even 2100. The Maeslantkering storm surge barrier was planned for a useful life of 75 years, but nowadays we are on top of things to adapt immediately to climate change."

"Provincial and municipal authorities and water boards are partners in the programme, and they directly benefit from the way various projects interrelate. In Nijmegen, for example, we're making the Waal river wider as part of our 'Room for the River' approach, while the city is creating a type of island similar to Paris' Île de la Cité. Safety and spatial lay-out have mutually strengthening effects. The water boards bear half of the costs involved in keeping the dykes high enough, and they are really a financial partner in the Delta Programme. I interviewed Prime Minister Mark Rutte at the Delta Conference in November. He summed things up nicely by saying, 'In spite of all agreements on autonomy, the Dutch public-sector parties collaborate'. I'm a great fan of that approach, with parties that have an interest in things assuming their responsibilities."

"In almost all of the world's deltas – from the Mississippi delta to the Mekong delta – multiple government authorities are involved. The big question is the same everywhere: who's really in charge here? There's a huge amount of interest internationally in our way of looking so far ahead and choosing this type of governance for preventing a disaster rather than fighting one. Even so, the delta decisions we're putting to the Cabinet will need to be embraced by the political arena in 2015. That will be an exciting time, of course, because we're not used to taking such drastic measures to prevent a disaster rather than fight it. It places high demands on everyone, and we'll need to put in a great deal of effort."

# Corporate Governance

**As a bank of and for the public sector, NWB Bank has a special responsibility towards society. In terms of corporate governance, this means the Bank should foster its robust financial position, while practising transparency in its governance, considering the interests of all stakeholders. NWB Bank's corporate governance practices include compliance with the Dutch Corporate Governance Code and the Dutch Banking Code.**

**The Supervisory Board and the Managing Board bear responsibility for NWB Bank's good corporate governance structure.**





## Dutch Corporate Governance Code

The Dutch Corporate Governance Code was prepared by the Tabaksblat Committee in 2003. It applies to Dutch listed companies. NWB Bank is not a listed company, which means it is not obliged to apply the Code. It has elected, however, to apply the Code on a voluntary basis, taking account of its own specific features. These features are that NWB Bank is not a company with statutory two-tier board status (*structuurvennootschap*), while its shares may only be held by the State of the Netherlands, water boards and other legal entities governed by public law and cannot be traded on a regulated market. The principles and best practice provisions that do not apply to the Bank because of its nature are those that relate to employee stock option and stock ownership, a one-tier board structure, the issuance of depositary receipts for shares, and institutional investors. Furthermore, NWB Bank did not formulate a policy on bilateral contacts with shareholders as prescribed by one of the Code's best practice provisions. As all of NWB Bank's shares are registered, the Bank knows its shareholders and keeps a shareholders' register, stating names and address details of the shareholders, as well as the dates on which they acquired their shares and the amounts they paid up on them. In practice, the Bank maintains direct, informal contacts with its shareholders' representatives throughout the year, choosing not to formalise its policies in this regard. Likewise, it decided not to formalise its practices in organising the General Meeting of Shareholders and providing information to that Meeting in line with the Code's best practice provisions.

Finally, a number of principles and best practice provisions deal with transparency and disclosure. Although NWB Bank complies with them, not all of them have been visibly laid down in procedures. The same applies to a number of principles and best practice provisions relating to the external auditor. When the Bank's procedures and regulations are updated, these aspects will be addressed as far as possible.

## Dutch Banking Code

The financial crisis that unfolded some years ago triggered a public debate on the role of the banking sector, with the need to restore trust being beyond doubt. One of the initiatives launched by the sector itself aimed at doing just that is the Dutch Banking Code. Adopted on 9 September 2009 and effective from 1 January 2010, the Code sets out principles with respect to supervisory and executive boards, risk management, audit and remuneration policy. To monitor compliance with the Code, the Banking Code Monitoring Committee was set up, which issued its first full report on compliance in December 2011. The interim report on the implementation of remuneration principles of September 2011 forms part of that report. The Monitoring Committee generally believed that, across the board, banks had taken steps to implement the Code and that reporting on compliance with the Code showed progress. Nevertheless, the Committee stressed that further progress was needed to ensure further restoration of trust in the banking sector.

In response to the Committee's call for full transparency about compliance with the Banking Code, NWB Bank prepared an overview showing how it complies with the Code's principles. It is included in this Annual Report as an appendix on page 112 and has been posted on www.nwbbank.com.

*The paragraphs below address a number of aspects dealt with in the Banking Code and report on compliance with the principles it sets out, also indicating whether further steps were taken in 2011 and, if so, how.*

## Comply or explain statement

NWB Bank fully acknowledges the significance of the Banking Code and will comply with its provisions in full. There is, however, one exception concerning compliance with Principle 6.4.3 of the Banking Code, which addresses the performance criteria for variable employee remuneration. More details are provided in the "Remuneration policy" paragraph on page 28.

## Putting the client's interests first

NWB Bank is a major player in financial service provision. It can fulfil its duties well only if society, and its clients in particular, are confident about the organisation and the integrity of the Bank's dealings. Accordingly, integrity, reliability and social responsibility are NWB Bank's core values. Employees are expected to promote these core values in carrying out their duties.

In May 2011, NWB Bank set up a dedicated Public Finance Department. In setting up this department, the Bank lends high priority to account management aimed at borrowers as well as product development, thereby enhancing its profile and raising its service levels. It is central to stepping up account management that the knowledge gap between the public sector and the finance world is bridged. The Bank's employees aim to achieve this at an individual client level as much as possible, but other options for highlighting the Bank's financial expertise and sector knowledge are hosting educational and other client sessions and participating in seminars as speakers.

NWB Bank tightened its product approval process in compliance with the Dutch Banking Code in 2010. Whenever new products are launched, new markets are entered or new services are offered, the Treasury, Risk Management, Legal Affairs, Back Office and Finance and ICT Departments are involved in the process. Whenever there is a substantial impact on the Bank's risk profile or strategy, the Supervisory Board's approval is required. The Internal Audit Department (IAD) assessed the effectiveness of the process in 2011.

## Risk management

In early 2011 a project aimed at improving management reporting was launched by setting up a data warehouse. This means a transition in terms of quality with regard to data gathering and robust management information and reporting.

The Bank's risk appetite is reviewed annually and whenever significant events warrant such a review. The description of the Bank's risk appetite concentrates on its strategy, its objectives and the way it can achieve those objectives. Establishing the risk appetite both by category and overall and reporting on those risks enables the Bank to always take its day-to-day decisions within the parameters set. The Managing Board submits the risk appetite to the Supervisory Board for its approval at least once a year, as well as after it has made material changes.

NWB Bank performed calculations based on various stress scenarios, considering stress tests and scenario analysis fundamental tools for assessing extreme circumstances. They enable the Bank to bring into focus the consequences of potential extraordinary circumstances, and allow it to draft a plan on that basis to safeguard its liquidity and solvency. The Supervisory Board is informed of the outcome of stress tests performed.

## Lifelong learning

NWB Bank considers lifelong learning by Managing and Supervisory Directors of fundamental importance, which is why it set up a programme to achieve this in 2011. The Managing Directors attended various national and international lectures, meetings and seminars in such areas as risk management, behavioural finance, governance, financial markets, accounting and supervision, provided by reputable institutes. Following Supervisory Board meetings, external parties held presentations for the Managing and Supervisory Directors about such subjects as Basel III and accounting regimes. Besides group presentations, the Bank facilitates external training courses for individual Supervisory Directors, depending on their expertise and experience. The effectiveness of these lifelong learning initiatives are assessed annually.

Following their appointment, new members of the Managing Board and Supervisory Board must follow an induction programme addressing, as a minimum, general financial, social and legal matters, financial reporting, the specific features of NWB Bank and its business operations, and the responsibilities of a supervisory or managing director.

## Remuneration policy

The remuneration policy with respect to the members of the Managing Board satisfies the provisions of the Banking Code. Likewise, the remuneration policy with respect to the employees is comfortably in line with the Code's principles. Employees' variable remuneration comprises a profit-sharing payment of up to 7.5% and a performance-linked payment of up to 7% of their fixed annual salary. Under the performance scheme, a percentage between 0% and 7% is established in reward of special achievements made in the relevant year. In setting the percentage, achievement of individual targets pre-set annually is considered. The Bank sets great store by non-financial performance. Accordingly, it has chosen to depart in some measure from Principle 6.4.3 of the Banking Code, which stipulates that pre-determined and assessable performance criteria be set, as it wishes to base its assessment also on performance that is not pre-determined but still exceptional.

## Moral and ethical conduct declaration

The members of NWB Bank's Managing Board signed the following moral and ethical conduct declaration.

*"I declare that I will perform my duties as a banker with integrity and care. I will carefully consider all the interests involved in the Bank, i.e. those of the clients, the investors, the shareholders, the employees and the society in which the Bank operates. I will give paramount importance to the client's interests and inform the client to the best of my ability. I will comply with the laws, regulations and codes of conduct applicable to me as a banker. I will observe secrecy in respect of matters entrusted to me. I will not abuse my banking knowledge. I will act in an open and assessable manner and I know my responsibility towards society. I will endeavour to maintain and promote confidence in the banking sector. In this way, I will uphold the reputation of the banking profession."*

The internal code of conduct, which applies to all of the Bank's employees, was brought into line with the principles of this declaration.

## Other corporate governance subjects

# Shareholders

Shares in NWB Bank may only be held by the State of the Netherlands and other legal entities governed by public law. Water boards hold 81% of the shares in the Bank's capital, the State of the Netherlands 17% and provincial authorities 2%.

As all of NWB Bank's shares are registered, a shareholders' register is in place, stating names and address details of the shareholders, as well as the dates on which they acquired their shares and the amounts they paid up on them. For a list of shareholders as at 1 January 2012, reference is made to page 111 of this Annual Report.

# Supervisory Board

## General

The Supervisory Board's duties are to supervise the Managing Board's policies and the general course of affairs of the Bank and its business, as well as to provide advice to the Managing Board. In fulfilling its duties, the Board serves NWB Bank's interests while carefully balancing those of its stakeholders, such as its clients, investors, shareholders and employees, giving consideration to corporate social responsibility aspects that are relevant to the Bank. Risk management was given high priority on the Supervisory Board's agenda.

The Supervisory Board has drawn up regulations governing its working methods and composition. The regulations are in line with the Corporate Governance Code and the Banking Code and were posted on www.nwbbank.com.

## Profile

To ensure the proper composition of the Supervisory Board of NWB Bank at all times, its members are appointed taking account of the nature of the Bank's operations and the desired expertise and background of the Supervisory Directors. They must be aware of, and capable of assessing, national and international social, economic, political and other developments that are relevant to NWB Bank. Furthermore, they must be capable of working as a team while serving on the Board. In the event of reappointment, they must have demonstrated that capability. They must refrain from promoting the interests of individuals, groups of individuals or parties involved in the Bank.

An overall profile has been drawn up, whose purpose is to provide guidance on the composition of the Supervisory Board and the appointment of its members, The Supervisory Board aims for a diverse composition. The profile is in line with the Corporate Governance Code and the Banking Code, and it has been posted on www.nwbbank.com under About NWB and Corporate Governance. In addition, individual profiles are drawn up for each vacancy that arises on the Supervisory Board, which is in line with the overall profile and which candidates must meet.

## Appointment

The General Meeting of Shareholders appoints the Supervisory Directors based on a binding nomination. It also decides on the number of Supervisory Directors, which must be at least seven and at most eleven, as prescribed by the Articles of Association. During the Annual General Meeting of Shareholders of 28 April 2011, the shareholders resolved to increase the Supervisory Board's membership from seven to eight, because the need was felt to extend financial expertise among the Board's members. Their term of office is four years, and they may serve no more than three terms. A Supervisory Director who has reached the age of 70 cannot be reappointed and stands down at the General Meeting of Shareholders first held once four years have elapsed after his or her most recent appointment.

### Other positions/conflicts of interest

The Supervisory Directors have informed NWB Bank of all other positions they hold. To the extent relevant to the fulfilment of their duties, these positions are disclosed on page 8 of this Annual Report. As in previous years, there were no conflicts of interest during the year under review.

### Audit and Risk Committee; Remuneration and Appointment Committee

The Supervisory Board has an Audit and Risk Committee and a Remuneration and Appointment Committee. Its regulations have been posted on www.nwbbank.com.

### Secretary

The Supervisory Board is supported by the Corporate Secretary, who is accountable to the Chairman of the Managing Board and reports to both the Managing Board and the Supervisory Board.





### Remuneration

The remuneration of the Supervisory Directors is set by the General Meeting of Shareholders and does not depend on the results of the Bank. Further details can be found in the Remuneration Report on page 52 and the relevant section in the financial statements on page 75.

### Shareholdings

Under NWB Bank's Articles of Association, its shares may be held only by legal entities governed by public law. NWB Bank's Insider Regulation prohibits Supervisory and Managing Board members, as well as employees, from making private investments in the Bank's securities. The Bank does not operate any share ownership or share option plans.

## Managing Board

### Appointment and composition

NWB Bank is managed by a Managing Board which, in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), should be comprised of at least two members. Managing Board members are appointed by the General Meeting of Shareholders for a term of four years on nominations by the Supervisory Board. During the Extraordinary General Meeting of Shareholders of 24 November 2011, the Managing Board's membership was increased from two to three, in response to the increasing requirements imposed on the Bank in terms of governance and regulations, and the increased scope of our client services. The portfolio's of operations for which the members of the Managing Board bear responsibility are disclosed on page 6 of this Annual Report.

### Regulations

The working methods of the Managing Board have been laid down in regulations, which have been posted on www.nwbbank.com. The regulations are in line with both Codes.

### Conflicts of interest

Where Managing Directors hold other positions or carry out transactions, conflicts of interest may arise. Before accepting significant other positions or supervisory board memberships, Managing Directors must request the approval of the Supervisory Board. As in previous years, no transactions took place during the year under review that involved or could be perceived as involving a conflict of interests.

### Remuneration policy

Early in 2011, NWB Bank drafted an updated description of the remuneration policy and posted it on www.nwbbank.com, in response to the Restrained Remuneration Policy (Financial Supervision Act) Decree (*Besluit beheerst beloningsbeleid Wft)* issued on 14 December 2010, which took effect on 1 January 2011, and the subordinate Restrained Remuneration Policy (Financial Supervision Act) Regulation 2011 (*Regeling beheerst beloningsbeleid Wft 2011)* issued by the Dutch Central Bank. The remuneration policy governing both Managing Board and staff is in conformity with the principles laid down in the Dutch Corporate Governance Code and the Dutch Banking Code, as well as, to the largest extent possible, with the aforementioned Regulation. It has been approved by the Supervisory Board and is subject to bi-annual review in liaison with the Remuneration and Appointment Committee. For further information about the remuneration policy, please refer to the Remuneration Report on page 48 of this Annual Report.

## Audit

The Internal Audit Department ("IAD") operates independently within the Bank. It carefully, expertly and objectively audits and tests how the Bank controls risks associated with its business operations and other activities. The Department also issues recommendations on the adequacy of the organisational structure and risk management.

The Head of the Internal Audit Department reports to the Chairman of the Managing Board as well as to the Chairman of the Audit and Risk Committee. Both the Head of the Department and the external auditor attend the meetings of the Audit and Risk Committee. Annual meetings are held between the internal auditor, the external auditor and the authority exercising prudential supervision, i.e. the Dutch Central Bank. During these meetings, views are exchanged about the Bank's risk profile, its planned operations and the external audit of the financial statements. NWB Bank's Risk Management Department is also represented in this meeting. Furthermore,the IAD participates in tripartite meetings held between the Managing Board, the Dutch Central Bank and the external auditor.

## Compliance

The compliance role was designed to promote and supervise, or arrange for supervision of, compliance with laws and regulations and with internal procedures and codes of conduct that are relevant to the organisation's integrity and associated reputation. NWB Bank has assigned the compliance role to its Legal Affairs Department. It oversees the Bank's primary process, which is providing loans to the public sector. The scope of its work covers the following five types of risk.

1. Risks relating to the Insider Regulation, such as with respect to private insider trading
2. Other risks relating to individual conduct, such as with respect to corporate insider trading, non-compliance with the code of conduct and complaints filed by whistleblowers
3. Risks relating to clients, such as with respect to the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wet ter voorkoming van witwassen en financieren van terrorisme)* and customer due diligence ("know your client")
4. Risks relating to financial services the Bank provides, such as risks with respect to sales conduct, transparency of product offerings, client interests and protection and data protection/privacy matters
5. Risk relating to the organisation's conduct, such as risks with respect to cartelisation, approving new products and industry-wide standards or codes of conduct

As part of its annual audit plan, the IAD carries out compliance audits in order to establish whether the Bank complies with relevant laws and regulations and with its own rules and standards. Furthermore, the IAD performs these audits to test the effectiveness of the documented controls and their correct application throughout the organisation.

### External auditor

The Bank does not award any non-audit related advisory engagements to the external auditor. Departures from this principle are possible only for pressing business reasons and will be reported to the Audit and Risk Committee.

### Whistleblowing procedure

The Managing Board has introduced a whistleblowing procedure, which was approved by the Supervisory Board. It enables employees to report alleged irregularities of a general, operational or financial nature at NWB Bank, on an anonymous basis if desired, without jeopardising their legal position. The procedure has been posted on www.nwbbank.com.

## Other developments

Developments in the area of corporate governance succeed each other at an ever faster pace. Most of these developments are related to the financial crisis, stemming from the desire to prevent the circumstances that caused it from recurring in the future. For instance, in the Netherlands, the Restrained Remuneration Policy (Financial Supervision Act) Decree took effect on 1 January 2011, as did the Policy Rule on Expertise 2011 (*Beleidsregel deskundigheid*), issued by the Dutch Central Bank and the Netherlands Authority for the Financial Markets. Furthermore, the Act amending Book 2 of the Civil Code and the Financial Supervision Act in connection with the authority to adjust and recover bonuses and profit-dependent payments from directors and day-to-day policymakers (*Wet tot wijziging van boek 2 van het Burgerlijk Wetboek en de Wft in verband met de bevoegdheid tot aanpassing en terugvordering van bonussen en winstdelingen van bestuurders en dagelijkse beleidsbepalers*) will take effect on 1 July 2012. From that same date onwards, the Policy Rule on Expertise 2011 will apply to supervisory directors, while the concept of "expertise" will be replaced by that of "suitability". Another act taking effect on 1 July 2012 is the Act amending Book 2 of the Civil Code in connection with the amendments to rules governing management and supervision in public and private limited companies (*Wet tot wijziging van boek 2 van het Burgerlijk Wetboek in verband met de aanpassing van regels over bestuur en toezicht in naamloze en besloten vennootschappen*). One aspect of this proposed act is a restriction on the number of supervisory board memberships, which is relevant when supervisory directors are appointed or reappointed, while another is that large public and private limited companies will be obliged to work towards 30% female representation in their executive and supervisory boards.

Naturally, NWB Bank closely monitors national and international developments, testing its policies where needed and ensuring compliance with laws and regulations.

### Responsibility statement

The Managing Board hereby states that, to the best of its knowledge, the financial statements give a true and fair view of the Bank's assets, liabilities, financial position and profit. It also states that, to the best of its knowledge, the management report includes a fair view of the Bank's position at the balance sheet date and of its development and performance during the financial year for which the financial information is set out in the financial statements, together with a description of the principal risks the Bank faces. Furthermore, the Managing Board is of the view that, in the year under review, the internal risk controls were effective. They provide reasonable assurance that NWB Bank's financial reporting contains no material misstatements.

The Hague, 8 March 2012

The Managing Board

R.A. Walkier
L.M.T. van Velden
F.J. van der Vliet

Jan-Hendrik Dronkers,

Director-General of the Department of

Public Works (*Rijkswaterstaat*)

# "Striking Blue Deals at home that Dutch businesses can apply on a larger scale abroad."





**During the Delta Conference held in November 2011, Jan-Hendrik Dronkers called for what he coined 'Blue Deals', in a reference to the Dutch Cabinet's 'Green Deals' aimed at encouraging sustainable initiatives from businesses and citizens by providing compensation. He reckons keeping our nation safe ought to be enough compensation to make Blue Deals between water management authorities and other stakeholders in the Delta Programme sufficiently attractive.**

"As one of the major principals in the area of water management and hydraulic engineering works, we feel that noblesse oblige. In terms of being an innovative principal, too, the Department of Public Works should be seen to lead. In the past, we used to make the design and instruct businesses to build what we had in mind. Today, our role is to see what needs to be done in terms of priorities in the political arena and society, and draft the terms of reference in such a way that businesses can leverage their creativity to the maximum in order to actually get it done. That goes far beyond the mere design and construction, and it may include maintenance and perhaps some degree of financing. Nowadays, we use all sorts of contracts, tailoring the solution to the issue in society that needs addressing."

"In fact, the Delta Programme is a prime example of how we have traded our conventional uniform working methods for multiform processes in which the government and the private sector challenge each other. Of course, we are knowledgeable as a principal, but we don't necessarily have all the solutions at hand. We need to tap external resources to find them. So we obtain know-how from businesses, from knowledge institutions and, of course, from abroad. We have our contacts in Germany, the UK, China, and so on to get know-how from across the globe and apply it here. That way, we keep a competitive edge in this area."

"It's crucial that we do things at home that attract attention internationally, such as our 'Building with Nature' approach. We used that approach to create the sand motor on the coast of the province of Zuid-Holland. It may be a relatively small-scale land reclamation project, but it is definitively innovative. We should be displaying our






capabilities here, which Dutch businesses can apply on a larger scale abroad. We are talking about specialist knowledge, with great potential for being marketed abroad. It works both ways - while the government demonstrates innovative solutions, in which knowledge institutions play a prominent role, Dutch businesses can widely market them. That is how our 'Top Sector Water' approach works. It creates a win-win situation for all three sectors involved."

"The 'Blue Deals' I advocated work along the same principle. They can cover anything from the salt content in the waters near Gouda and the water level of lake IJsselmeer to standardising water safety levels. There's plenty of opportunities for making arrangements between parties, not just between water management authorities, but also with other stakeholders. Direct compensation isn't needed. The ultimate goal, which is our nation's safety, is the best possible compensation."

"Part of our procurement budget goes towards innovative solutions. As climate conditions become more extreme, it's no longer sufficient to just 'turn a few knobs in the system'. Novel solutions are needed, such as the ones we are implementing in our Room for the River Programme, making clever use of space. In the Delta Programme, we can build on those. One of the things we're looking at is using lake IJsselmeer as a kind of freshwater reservoir as well as other storage options. Another subject is how to get rid of excess water. It might well be a good idea to discharge most of it to the river Waal in the future. Our objective is clear - selecting those solutions that make our system more robust."

"Historically, water was our enemy that had to be kept out. Then we found out we could move along with nature. And now, we are discovering that a single structure can be used for multiple purposes, such as using a dyke to separate fresh and salt water and to generate power. Having said that, we sometimes go back to historical concepts, such as mounds. Suppose a plot of arable land gets inundated once every ten years. Of course, that's unpleasant, but as long as the farmhouse is high and dry, that's not a disaster. We constantly seek to increase our range of potential solutions this way. As far as I'm concerned, this will make the Netherlands the world's scale model in terms of water management expertise - the perfect display, on a small scale, of everything that can be applied on a larger scale elsewhere. That's how we work to create the safest delta in the world in a way that also benefits Dutch businesses."

# Corporate social responsibility

**NWB Bank lends to public-sector institutions that serve a general public interest. Many of the institutions that NWB Bank funds make an important contribution to the quality of society and the level of healthcare and general welfare by the nature of their work and mission. NWB Bank's borrowers also devote greater attention to sustainability.**
**For example, in a joint effort headed by the Dutch Ministry of Infrastructure and the Environment aimed at boosting the market for sustainable products, governments use sustainable procurement criteria.**

To NWB Bank, CSR means enriching its objectives as a public-sector bank with a proactive approach in order to make a positive impact in social, environmental and economic terms. This is what we wish to be held accountable for and enter into a dialogue with our stakeholders about. NWB Bank carries on its business on the basis of its core values, which are social responsibility, a robust financial position and efficient business operations. NWB Bank's fundamental principle is that it funds institutions or operations that are in line with its CSR policy. Its CSR aspirations are apparent from its core duties, business operations, HRM and commitment to society. The Managing Board bears responsibility for CSR issues, with assistance being provided by the various departments and a CSR working group. The working group discusses both internal and external CSR issues and puts forward recommendations for implementing the Bank's CSR policy.

In 2009, NWB Bank made a first step in the field of CSR by detailingand raising its aspirations in this area. Among the tangible results were the introduction of initiatives in the area of sustainable procurement, offsetting carbon emissions wherever possible, and reporting at application level C of the Global Reporting Initiative (GRI). We report on 2011 at the desired GRI level of B+ (2010: level B+). Furthermore, in 2011, the Bank again participated in the Transparency Benchmark of the Dutch Ministry of Economic Affairs, Agriculture and Innovation. The Bank was rated 80th (2010: 43rd) among 469 participants. In the 'Banks and insurance companies' category, NWB Bank was rated 14th (2010: 8th). We will be studying the background to these ratings.

A debate was held internally on relevant CSR performance indicators and more insight was gained into our options and aspirations. NWB Bank has documented the duties and responsibilities as part of its CSR policy. With regard to the Bank's procurement policy, the CSR working group debated the assessment of suppliers (e.g. the cleaning company) in terms of corporate responsibility in 2011. Its commitment to society has led the Bank to aspire to work with organisations that promote the interests of minorities. 2011 saw NWB Bank participate for the first time in a project aimed at providing budget coaching to pupils in lower secondary professional education, something it will do again in 2012.

## Strategy and aspirations

In the year ahead, the Bank wishes to make further progress by further detailing its CSR policy in general, and its procurement policy in particular, and monitoring and managing environmental and social indicators more specifically. As regards embedding CSR into its core duties, NWB Bank seeks to take a number of significant steps. It is studying the options for financing "green" projects and building a portfolio of "green" loans. The working group will elaborate the definition of such loans in more detail. It is fundamental that, where such loans are involved, the borrower's intended use of the funds obtained is documented in more detail.

Again, NWB Bank reported on 2011 at GRI application level B+. The Bank seeks to maintain this application level and further optimise monitoring of and planning for the related performance indicators. Furthermore, its commitment to society has led the Bank to aspire to work more with organisations that promote the interests of minorities.

## Management approach

NWB Bank seeks to report on its operations in a transparent manner. It bases its CSR reporting on the guidelines issued by the GRI. We selected the GRI performance indicators in the area of sustainability based on the fact that we are a relatively small office-based organisation and fulfil our duties as a services provider in the public and financial sectors. Most indicators are in the 'social' and 'economic/financial' categories, which make them relevant to the Bank as a provider of financial services. The CSR working group selected and debated subjects that are material to NWB Bank, also viewed from a stakeholder perspective. The Management Team, which includes the Managing Board, makes the final selection of supplementary performance indicators, if any.

The social indicators relate to transparency in terms of staffing, absenteeism performance, training and development, which are specific target areas for our HRM policy.

For NWB Bank, the economic indicators are primarily sector-specific indicators from the GRI's Financial Services Sector Supplement. Performance relating to the economic indicators is discussed in the financial statements and the Report of the Managing Board. Not many of the environmental indicators are of relevance to a small office-based organisation.

In the corporate responsibility category, NWB Bank wishes to be a more active discussion partner in the public and financial sectors with regard to relevant public policies. NWB Fonds is another important mainstay of its social policy. Prompted in part by the Dutch Banking Code, the Bank has placed more focus on the product responsibility category, a category that had been included as early as in 2010, specifying two GRI performance indicators relating to product information and client privacy. Our CSR report does not, or not exhaustively, discuss a number of relevant subjects, such as governance, compliance, remuneration policy, HR policy and risk management, because they are addressed elsewhere in this Annual Report. These performance indicators are explained in more detail in the GRI table that can be found on www.nwbbank.com. The CSR reporting policies are addressed in more detail elsewhere in this section.

## Embedding sustainability into our core duties

We consider lending to public-sector institutions and funding our operations on the international capital market our principal core duties. A first step was made in integrating sustainability aspects into loan reviews by assessing the degree to which our top 10 clients in the housing corporation sector report on sustainability aspects. The assessment's outcome was discussed by the Bank's Asset & Liability Committee (ALCO). In a significant further step, our main clients in the healthcare sector will be similarly assessed. However, sustainability has not become a permanent criterion in our lending as yet. We aspire to identify and monitor more closely the sustainability impact of the institutions we finance, among other things by documenting the intended use to which the funds are to be put. Reviewing for CSR aspects may contribute to a low risk profile. In 2011, we included exclusion criteria in our CSR policy (see the "Dilemmas" paragraph). NWB Bank responded to its clients' changing needs, among other things by offering such client-focused products as "basisrentelening" loans and making sufficient resources available. In 2011, NWB Bank continued its dialogue with borrowers by holding face-to-face client meetings and hosting group meetings. Furthermore, sustainable institutional investors express an interest in NWB Bank's own funding. They engage research agencies in the area of sustainability that use questionnaires to assess the Bank's CSR policy and its transparency.

## Supply chain responsibility

Supply chain responsibility is one of the basic principles underlying NWB Bank's sustainability ambitions. In the area of lending to (semi) government institutions, the sustainability impact will be identified in more detail.
During meetings with clients, product responsibility and product transparency are discussed, e.g. by providing information leaflets for specific loans. With respect to the funding NWB Bank raises in the international capital markets, we are studying options for mapping the sustainability criteria used by the brokers involved and, where possible, increasing the sustainability impact. In the end, the sustainability impact of NWB Bank's operations can be measured by the added value to society that can be identified, in which the dialogue in the supply chain is also an important factor.
The diagram below illustrates the chain in which NWB Bank operates.

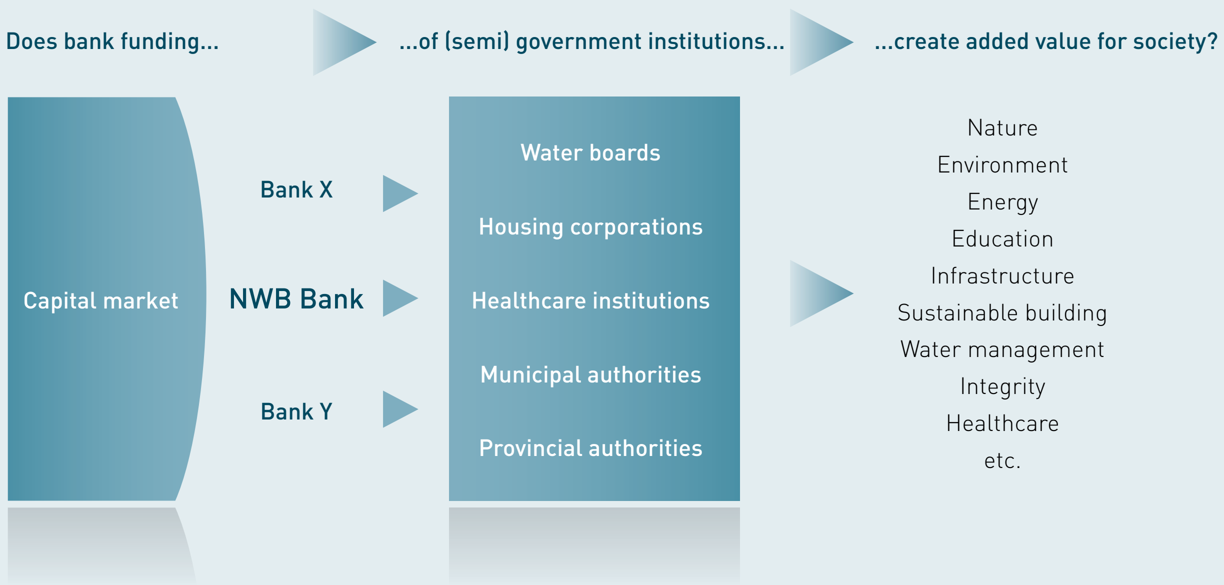
## Responsible business operations

In terms of business operations, our CSR aspirations are mainly in the areas of sustainable procurement, the environment (energy and materials) and social policies (HRM). Effective 2011, we use a list of procurement categories to monitor whether procurement increasingly meets the criteria set by NL Agency (Agentschap NL).
Paper use is recorded and hard-copy documents are being replaced by soft-copy documents where possible. A new contract with a cleaning company was concluded, which takes effect in 2012. This service satisfies NL Agency's sustainable procurement criteria.

## The environment

We used an estimated 1,815 kgs of paper in 2011 (2010: 2,350 kgs), representing a decrease in absolute terms of 23 percent and, adjusted for the number of FTEs, no less than 26 percent.
The purchase of new multifunctional equipment helped achieve the reduction, as it features double-sided printing. In 2012, we seek to reduce paper use per employee by further digitising our documents.
As part of the digitisation project, we have asked the readers of our annual reports and half-year reports whether they would like to receive soft-copy rather than hard-copy documents. Roughly one-third of the respondents indicated they preferred receiving soft-copy documents only.

**NWB Bank's role in society**

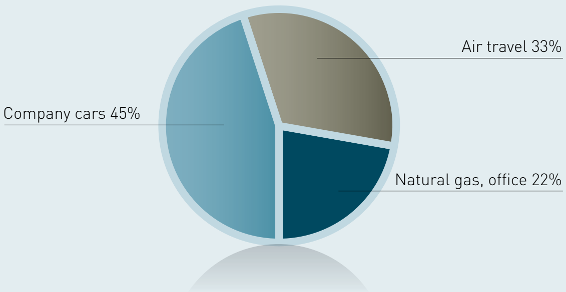


A 10 percent reduction in water use was achieved in 2011, compared with 2010 (based on the invoice for the period from October 2010 through September 2011). One of the causes for the reduction was the low-flush toilets installed during the refurbishment that was completed in 2011.

Our carbon footprint for 2011, of which the office building and travel are major components, was again established. The Bank's total carbon emissions in 2011 were estimated at 232 tonnes (2010: 190 tonnes). The chart below shows a breakdown by category. The carbon footprint was calculated on the basis of estimates. Further details are provided in the GRI tableon www. nwbbank.com.

While our procurement of electricity was sustainable in 2011, we switched to a different supplier with effect from 2012. Electricity will be generated from renewable sources mostly in the Netherlands. Gas consumption in 2011 was 28,000 m3, some 18 percent below that in 2010, and the supplier provided a carbon offset. For the whole year 2011, carbon emissions associated with overseas air travel were offset. Further consideration was given in 2011 to the Bank's policy on company cars, and debates focused on such aspects as the cars' required energy label. Current energy labels are A and B.

**Carbon footprint in 2011**




## Social policies

NWB Bank seeks to offer its employees a dynamic and inspiring place to work, evolving into a flatter network organisation focused more on mutual collaboration, knowledge sharing, information exchange, a sense of responsibility, risk awareness and involvement in the Bank's policy and strategic objectives.

### Workforce – composition and changes

At year-end 2011, the headcount was 43, including the members of the Managing Board. Three employees (two male and one female) joined the Back Office and Finance, Public Finance and HRM departments, while one employee left the Bank to go into early retirement. A breakdown by age category of the Bank's workforce is shown in the table below. The Bank has a total of 26 male and 17 female employees. The Managing Board has one female member. The Management Team, which comprises ten persons, has three female members. The average period of service is approximately ten years. While the stable workforce is one of NWB Bank's prime assets, it also requires that the Bank carefully assess its employees' performance and promote their career development.

### Employee development

Developing employees and furthering their performance are vital to achieving the Bank's objectives. This is why NWB Bank invests in its employees by facilitating training and study programmes. In 2011, an amount of €2,950 per employee was spent on education on average, representing an 18% increase compared with 2010. The Bank wishes to maintain this investment level. In the years ahead, focus will be on involving the employees in formulating their personal goals in conjunction with those of other employees and

| Age category | 20 - 30 | 30 - 40 | 40 - 50 | 50 - 60 | 60 - 70 | Total |
|---|---|---|---|---|---|---|
| Number in 2011 | 2 | 14 | 19 | 8 | 0 | 43 |
| Number in 2010 | 2 | 16 | 18 | 4 | 1 | 41 |



NWB BANK

those of the Bank.

The employees' achievements and performance are assessed as part of NWB Bank's HR cycle, which will be expanded to include job-specific competencies, allowing employees to receive effective feedback on their performance.

## Working conditions

An employee satisfaction survey was held in the year under review, in which 36 employees participated. The survey formed part of the risk assessment that was performed. The outcome gives a favourable picture in terms of the positive energy employees gain from their work. A number of aspects offer scope for improvement, such as the frequency to meet informally and the degree of autonomy. The survey's outcome was discussed in a staff meeting and subsequently assessed in the departments. Partly in view of this, internal communications will be accentuated.

Safeguarding a working climate in which employees feel respected and safe is a further objective of the Bank's HRM policy. A regulation on unwanted behaviour in the workplace was introduced in the year under review, and NWB Bank has a confidential counsellor.

Reports relating to the Bank's codes of conduct are made to the compliance officer or confidential counsellor in the Bank. If they relate to the Insider Regulation, the external compliance officer is informed. The regulation on unwanted behaviour in the workplace specifically includes a ban on discrimination. No incidents involving discrimination were reported in 2011. Given its small workforce, NWB Bank has chosen not to disclose any further information on reports, to protect the privacy of its employees.

## Absenteeism and illness prevention

At 3%, the absenteeism rate was again low in 2011 (2010: 3%). Brief absenteeism edged up from 1.1% to 1.2%, and medium-length absenteeism, in the category up to 43 days, came to 0.5% (2010: 1.0%). Conversely, prolonged absenteeism was up from 0.9% to 1.3%. From the start, employees who fall ill receive regular support from their managers and the Health and Safety Service. Where needed, NWB Bank facilitates the assistance of ill employees by professional parties to accelerate their return. The Bank aims to keep absenteeism rates at the current levels.

NWB Bank offered its employees the opportunity to undergo a health check as part of raising awareness about lifestyles and long-term employability. Many of the employees appreciated the initiative, and 32 of them participated in 2011. Expectations are that the check will be offered each year.

## Terms and conditions of employment

Of the 43 employees, 37 are subject to the collective labour agreement for the banking industry, while most of the terms and conditions of employment stipulated in that agreement are applied to the other six. NWB Bank believes it pursues a moderate and consistent terms and conditions of employment policy that is in keeping with its character, the values currently prevailing in society and trends in terms and conditions seen in the labour market.

NWB Bank offers its employees a package of staff benefits that is in line with market practice and that includes supplementary incapacity for work insurance and a pension plan. Furthermore, the Bank operates a bicycle plan, in which 12 employees participate (2010: 11). During the refurbishment of its building, the gym was also upgraded, and employees have the opportunity to play tennis outdoors.

In 2011, the Bank introduced teleworking, under a regulation that reflects a practical approach suited to NWB Bank, in which the organisation's interests are combined with the benefits of offering employees individual flexibility. For the moment, telework is permitted on an incidental basis. After all, it is inherent in an organisation with a small workforce that it must be possible to contact employees in-house as much as possible, which is a precondition for effective and efficient collaboration.

Its commitment to society has led the Bank to aspire to work with organisations that promote the interests of minorities. For instance, we engage the services of a firm of couriers that employs physically challenged people. We are studying the options of engaging the services of a similar organisation for digitising our files.

## Dilemmas

A number of dilemmas presented themselves to NWB Bank in 2011, with a number of sustainability aspects being weighed up. These dilemmas were also debated in the internal CSR working group, and they related mainly to the Bank's core duties. Mapping sustainability in its core duties represents a significant challenge to NWB Bank, partly in view of the size of its loans portfolio. In the systematic application of CSR-related exclusion criteria, the generic financing of clients is often an impediment, given that the intended use of the funds lent is often unknown at the time of granting. The Bank has started a trial to assess how the intended use of loans granted can be better identified and documented without requiring too much resources from NWB Bank or its clients. Another subject of debate was building a portfolio of "green" loans over the coming years, in which cutbacks in the tax relief scheme for such loans is of particular relevance. Possible alternatives for this scheme are also a subject of debate in the Bank. The question is, however, whether NWB Bank is able to develop an alternative type of "green loan" with its limited resources in terms of staffing. Lastly, for practical reasons, the choice was made to set off carbon emissions in our business operations rather than reducing them directly. With respect to air travel, we choose to set off carbon emissions, while aiming to reduce air travel in the longer term, for instance by encouraging train travel as part of our business travel policy. Striking a balance between the number of client meetings and the opportunities to reduce emissions directly is a relevant factor in this respect.

## Commitment to society

We continue to set great store by the Bank's commitment to society, which is reflected not only in the activities pursued by NWB Fonds, but also by our project sponsorship (in the fields of water, the arts and books). In 2011, our sponsorship contributions totalled €72,200 (2010: €95,700).

We plan to integrate trends in society that impact the Bank and its stakeholders into our CSR policy. Stakeholders may suggest these to us by using our email address info@nwbbank.com. Lastly, NWB Bank also takes part in debates on social issues itself (see the "Stakeholder dialogue" section).

At the end of 2006, NWB Bank, in close collaboration with its shareholders and in consultation with the Dutch Association of Water Boards, set up Stichting NWB Fonds. NWB Fonds focuses in particular on improving local management and control of the world's water systems. The Fund also contributes to projects aimed at protecting against flooding and sound waste water management. To this end, NWB Fonds provides financial support to water boards and public institutions that devote themselves to international partnership projects. In 2007, NWB Fonds granted its first project subsidies, and projects are now underway in such countries as Nicaragua, Romania, Senegal, Slovakia and Surinam. Two of these projects focus on achieving the millennium goals, with much of the emphasis being on access to water and sanitation.

The other projects concentrate chiefly on the transfer of knowledge of various aspects of the Dutch model of water management that show promise for application in the countries concerned. For recent developments in 2011, reference is made to the contribution made by Henk Loijenga, Director of NWB Fonds, on page 46 of this Annual Report. More information can be found on the fund's website, www.nwbfonds.nl.

Another aspect concerning our commitment to society is combating corruption. In 2011, no case of corruption was reported internally. NWB Bank has implemented various preventive measures, the most important of which are pre-employment screening, the Insider Regulation and the code of conduct. Employees were given integrity training in 2010.

In compliance with the Banking Code, the members of the Managing Board each signed a moral and ethical conduct declaration (see the "Corporate governance" section). The code of conduct for the Bank's employees was brought into line with this declaration and posted on www.nwbbank.com. The code of conduct was signed by all employees and forms part of their employment contracts. To safeguard our employees' privacy, we do not report on the outcome of pre-employment screening, on the Insider Regulation or on the Code of Conduct. Reports made are processed by the compliance officer. Product responsibility is a subject addressed in the Dutch Banking Code and a separate category explained in further detail in the GRI table. Reference is made to the "CSR reporting policies" paragraph below. A key element in product responsibility is the product approval process, in which all relevant departments of the Bank are involved.
No complaints from clients were received in 2011 in this regard.

2011 saw NWB Bank participate for the first time in a project entitled "Money. Just imagine you had it!" (*Geld. Je zult het maar hebben!*). The project is a joint initiative of NIBC Bank and the City of The Hague, aimed at providing budget coaching to pupils in lower secondary professional education. NWB Bank allocated three employees to this community project, as well as making a contribution towards costs. The Bank will again participate in the educational project in 2012, expecting to allocate five employees.

## CSR reporting policies

NWB Bank's disclosure policy is geared towards reporting on its operations in a transparent manner. In reporting on our CSR policy, we use the GRI guidelines (which can be found on www.globalreporting.org), specifically, the GRI's G3 guidelines. We are of the opinion that we report at GRI application level B+. The chapter on corporate social responsibility was externally assured by KPMG. For a full overview of relevant content criteria and performance indicators, reference is made to the GRI table that can be found on www.nwbbank.com.

In this Annual Report, we apply the GRI Guidelines for Sustainability Reporting, as well as the GRI's Financial Services Sector Supplement, where possible. Our choice for GRI is motivated by the fact that we wish to achieve good international comparability with other institutions, such as various other banks and other Dutch state-held enterprises. In determining the contents of the report, NWB Bank's Managing Board identified three core areas of attention in the field of CSR. They are social aspects, environmental aspects and economic aspects. Part of their identification resulted from a dialogue with the Bank's stakeholders. It was established that stakeholders represent a significant target group for this Annual Report.

## Stakeholder dialogue

NWB Bank contacts its stakeholders on a regular basis. In a CSR context, it qualifies shareholders, customers, investors, staff members, the government and supervisory authorities as its stakeholders. In 2011, CSR issues relevant to those stakeholders were again identified, selecting them for each individual stakeholder based on the policies they pursue with regard to social and sector-specific subjects. The issues identified are addressed both in this section of the Annual Report and in the Report of the Managing Board. The CSR working group extensively debated the analysis of the Material Issues Plot (*Plot Materiële Onderwerpen*). Governance, compliance/integrity, Dutch and European political developments and Basel III are highly relevant issues affecting both NWB Bank and its stakeholders.

Contacts with stakeholders are periodic, but sometimes prompted by specific events. Throughout the year, the Managing Board visits investors to explain half-year and annual figures and other trends. Once a year, it convenes an Annual General Meeting of Shareholders. During the Meeting, the Managing Board renders account of objectives, corporate strategy, policy and financial results. Several times during the year, consultative meetings are held with the supervisory authority (the Dutch Central Bank) on such subjects as risk management, compliance and integrity. NWB Bank aspires, among other things, to lend more structure to its stakeholder dialogue. In addition, we participate in various regular meetings with ministries, with the Dutch Banking Association (NVB), and with the European Association of Public Banks (EAPB). In addition, trends in society that impact NWB Bank and its stakeholders may be integrated into its CSR policy. The response to last year's Annual Report, mostly voiced during the Annual General Meeting of Shareholders, was considered in preparing this year's Report. The Bank's CSR policy was also a discussion item in the Meeting.

# INDEPENDENT ASSURANCE REPORT

**To the readers of the 2011 Annual Report of the Nederlandse Waterschapsbank N.V.**

We were engaged by the Managing Board of the Nederlandse Waterschapsbank N.V. ('NWB Bank') to provide assurance on the information in the chapter 'Corporate Social Responsibility 2011' ('The CSR Chapter') as included in the Annual Report 2011. The preparation of the CSR chapter, including the identification of material issues, is the responsibility of the company's management. Our responsibility is to issue an assurance report on The CSR Chapter.

## What was included in the scope of our assurance engagement?

Our engagement was designed to provide the readers of The CSR Chapter with limited assurance on whether the information in The CSR Chapter, in all material respects, is fairly presented. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance. We do not provide any assurance on the achievability of the targets, expectations and ambitions of the NWB Bank.

## Which reporting criteria did the NWB Bank use?

NWB Bank applies the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative (GRI) for The CSR Chapter as detailed in paragraph 'CSR reporting policies' of The CSR Chapter. The information in The CSR Chapter should be read in conjunction with this explanatory information.

## Which assurance standard did we use?

We carried out our engagement in accordance with Standard 3410N 'Assurance engagements relating to sustainability reports' of The Netherlands Institute of Chartered Accountants. This Standard requires, amongst others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand and review the information in The CSR Chapter, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants, including independence.

## What did we do to reach our conclusions?

We undertook the following procedures:

- Performed a media analysis and internet search on sustainability issues for the NWB Bank in the reporting period, in order to deepen our insight in relevant sustainability issues and questions in the reporting period.
- Conducted interviews with responsible management and members of the CSR working group responsible for providing the information in The CSR Chapter.
- Performed a review of design of the systems and processes for information collection and processing, including the aggregation of the data for information in The CSR Chapter.
- Performed a review of internal and external documentation, based on sampling, to determine whether the information in The CSR Chapter is supported by sufficient evidence.
- Verified the consistency of the information in The CSR chapter with other reported information in the Annual Report 2011.

During the assurance process we discussed necessary changes in The CSR Chapter with the NWB Bank and we reviewed the final version of The CSR Chapter to ensure that it reflects our findings.

### What is our conclusion?

Based on our procedures performed, as described above, nothing has come to our attention to indicate that The CSR Chapter is not fairly presented, in all material respects, in accordance with the G3 Guidelines of the Global Reporting Initiative.

Amstelveen, 8 March 2012

W.J. Bartels RA, Partner
KPMG Sustainability
part of KPMG Advisory N.V.

Henk J. Loijenga,

Director of NWB Fonds

## "NWB Fonds is NWB Bank's way of expressing its commitment to corporate responsibility. Through the Dutch water boards, it puts that commitment into practice."





**In 2007, the Bank started building the fund, which now has assets totalling €20 million. The interest income is available to support international partnership operations undertaken by Dutch water boards.**

NWB Fonds has been in existence for five years now. NWB Bank has made five donations to the fund, totalling €20 million. Over the coming years, the fund's assets will grow to €25 million at a maximum. During the first five years of building the fund, we have been able to accumulate a budget of €1 million that enables us to cope well with the expected growth in the water boards' international collaboration.

Although collaborating across borders is not among the water boards' core operations, it is imperative that they engage in such partnerships to make a valuable contribution to resolving today's global water issues as large public-sector players in the Dutch water sector. In the process, they consolidate the position of the Netherlands internationally as a centre of expertise in the field of water management. In return for their engagement, the water boards gather topical know-how, acquire unexpected insights, build international networks and gain innovative strength.

NWB Fonds acts as their 'external budget', so to speak, which is available to fund international collaboration. It reimburses travel and accommodation expenses as well as most of the salaries of water board staff allocated to the international partnerships. This means directors of those water boards said to 'spend money on development cooperation' have no difficulty accounting for their actions to the payers of water board tax.

A recent assessment of the first five-year period has shown that the fund's objective is realised well. Most partnership operations the water boards undertake contribute to sustainable integrated water management and sound decentralised water governance in the partner countries, with more than half of their operations focusing on these themes. Just over a quarter relate to sanitation (including drinking water supply) and waste water treatment. As a sub-theme of integrated water management, water quality is on the rise. At year-end 2011, 40 projects had been undertaken by 18 water boards in 17 countries, 5 of which are in Eastern Europe, 3 in Asia, 7 in Africa and 2 in Latin America. In the aggregate, they involved a contribution

‘NWB Fonds offers water boards a good option for making a contribution to development cooperation.’

from NWB Fonds of more than €2.5 million. Standing out among the success factors are visibility and local presence as well as innovation-oriented exchange and building of knowledge and know-how, based on the water boards’ core values and core competencies. Furthermore, as evidenced by the assessment, NWB Fonds is evolving from a mere co-financier of foreign water board projects into a consultant and assistant of water boards, which make their specific contributions to achieving the Dutch water sector’s aspirations in the various partner countries.

This emerging role NWB Fonds is assuming is underpinned by the dynamics of its policy. In 2011, the fund’s board reiterated the importance of knowledge building and capacity development in international partnerships, offering scope for investments in precisely those areas. For example, water boards can deploy foreign students and alumni of Dutch educational institutions to engage in research and innovation as part of projects or programmes in their home countries, which results in a capacity gain for all partners that is greater than the sum of the parts. Beyond that, it establishes permanent links between the water boards and the world’s latest water knowledge and know-how. So far, we have had positive experiences with students and alumni of the UNESCO-IHE Institute for Water Education in Delft.

Besides offering water boards the scope for allocating resources across borders, the fund’s board also widened the scope for allocating its own staff and board members. In doing so, we support the Dutch Association of Water Board’s call for a pooling of resources aimed at international collaboration. That pooling of resources is combined with a country focus and a focus on those areas in which the water boards can make the most valuable contributions, i.e. sustainable integrated water management and sound decentralised governance. This ensures they work from their core values and core competencies, with a particular emphasis on capacity building and innovative strength, both abroad and at home.

# Remuneration report 2011

## Remuneration policy

The Restrained Remuneration Policy (Financial Supervision Act) Decree (*Besluit beheerst beloningsbeleid Wft*) took effect on 1 January 2011. It grants additional rule-making powers to the Dutch Central Bank and the Netherlands Authority for the Financial Markets in the area of corporate remuneration policies. The Dutch Central Bank subsequently laid down further rules in the Restrained Remuneration Policy (Financial Supervision Act) Regulation 2011 (*Regeling beheerst beloningsbeleid Wft 2011*), in response to which NWB Bank prepared an updated description of its remuneration policy governing Managing Directors and employees. It was approved by the Supervisory Board and is assessed, in appropriate consultation with the Supervisory Board's Remuneration and Appointment Committee, on a regular basis. It has been posted on www.nwbbank.com. Further details are provided below.

## Remuneration policy with respect to the Managing Board

The remuneration policy with respect to NWB Bank's Managing Board is aimed at recruiting and retaining skilled and highly qualified managing directors. NWB Bank generally pursues a policy of moderation with respect to remuneration of the members of the Managing Board, in accordance with generally accepted standards. The remuneration policy with respect to the Managing Directors was most recently amended with effect from 1 January 2010, following approval by the Annual General Meeting of Shareholders. It applies to Managing Directors appointed since that date.

The policy entails a maximum salary (i.e. fixed and variable remuneration in the aggregate) of €280,000 to be paid to the Managing Board's Chairman and a maximum of 85% of that amount for other members of the Managing Board. Departures are permitted should labour market conditions put the continuity of the Bank's high-quality management at risk. The maximum amounts are subject to annual indexation.

## Fixed remuneration

Fixed remuneration is subject to annual indexation in line with the permanent salary adjustments laid down in the collective labour agreement for the banking industry ("the CLA").

## Variable remuneration

Variable remuneration of the members of the Managing Board equals no more than 15% of their fixed remuneration. Variable remuneration is based on the relevant member's performances, those of the business units he or she is responsible for and those of the Bank as a whole. The performances have been quantified as pre-determined and assessable performance criteria. The variable remuneration of the Managing Board members comprises a short-term element (10%) and a long-term element (5%). The amounts of both are determined on the basis of pre-agreed short-term targets for the relevant year. The long-term element is deferred, with payment being conditional upon the achievement of pre-agreed long-term targets.

The long-term categories are:

- Maintenance of the AAA ratings
- Strategy

Following each four-year period, achievement of those long-term targets is assessed and payment of the annual deferred variable component of a maximum of 5% is decided upon.

The short-term element of the variable remuneration is determined on the basis of the following categories.

- Profit (in line with the targets set out in the annual budget)
- Risk management (in line with internal and external sets of standards)

- Strategy/policy implementation (in line with the targets set out in the annual policy paper)
- Personal areas for attention

Following each year, performance is assessed against the targets. The granting of the variable remuneration component is at the sole discretion of the Supervisory Board. In extraordinary circumstances, the Supervisory Board has the discretion, as a last resort, to adjust the variable remuneration where it believes the outcome would otherwise be unfair or unintended. Furthermore, it has the power to claim back the variable remuneration from a Managing Board member should financial or other data underlying the granting prove to be incorrect (claw-back).

The Bank does not operate any stock option or stock ownership plans. It has a low risk profile and its core operations are homogenous in nature. Furthermore, the relatively small variable remuneration component comprises no more than 15% of the base salary (the short-term element of which is a maximum of 10%, while the long-term, four-yearly, element is a maximum of 5%). Accordingly, the Bank has chosen not to pursue any policy aimed at partial payment of the variable remuneration in the form of Bank-related ownership securities. The choice is based on the principle of proportionality described in Section 3 of the Restrained Remuneration Policy Regulation.

Given the nature of the Bank's business and its position in society, no scenario analyses were performed in setting the amounts and structure of the variable remuneration.

### Pensions

The pension benefits of the members of the Managing Board have been insured on the same terms as those of the other NWB Bank employees, with pension premiums being borne by NWB Bank. Pension contracts for members of the Managing Board provide for average-pay plans.

### Term of employment contracts

Managing Board members are appointed for a term of office of no more than four years, with the option of reappointment for periods of no more than four years. This means that their employment contracts are reviewed and analysed every four years.

### Other terms and conditions of employment

The Bank makes cars available to the Managing Directors. Otherwise, their terms and conditions of employment are the same as those of the employees.

## Remuneration of members of the Managing Board in 2011

### Fixed remuneration

Ms Van Velden was appointed to the Managing Board with effect from 1 January 2010, which means that she is subject to the remuneration policy adopted as at that date, as is Mr Van der Vliet, who was appointed to the Board with effect from 1 January 2012. His appointment marked an increase in the Board's membership from two to three. Mr Walkier has been a Managing Director since 1993 and Chairman of the Managing Board since 2008. Accordingly, he is subject to the remuneration policy in place before 1 January 2010. The fixed remuneration was subject to annual indexation effective 1 January 2011 in line with the salary adjustment laid down in the CLA.

### Variable remuneration

In February 2012, the Remuneration and Appointment Committee assessed NWB Bank's actual results against the pre-determined targets set out in the Managing Board's performance contract, concluding that all Managing Board targets were achieved in full. On that basis, the Committee submitted a proposal to the Supervisory Board.

| Category | Target | Achievement |
|---|---|---|
| Profit | In line with the targets set out in the annual budget | Achieved |
| Risk management | In line with internal and external sets of standards | Achieved |
| Strategy/policy implementation | In line with the targets set out in the annual policy paper | Achieved |
| Personal areas for attention | Walkier | Achieved |
| | Van Velden | Achieved |

## Performance assessment of the Managing Board

The table above shows the results of the performance assessment adopted by the Supervisory Board. The variable remuneration which the Supervisory Board awarded was 10% of the base salary for both Mr Walkier and Ms Van Velden. The long-term element of the variable remuneration for 2011 conditionally granted represents 5% of the base salary, which amounts to €14,000 for Mr Walkier and €10,000 for Ms Van Velden. This element will be reassessed four years from now in terms of achievement of long-term targets and paid out following any adjustment deemed necessary.

## Long-term variable remuneration for 2008

From 1 January 2008 onwards, long-term elements were added to the variable component of the remuneration of members of the Managing Board. This means that part of the variable remuneration would be made payable if the long-term targets were achieved upon expiry of a specific period, which was four years in this case. The long-term elements were assessed for the first time as at 1 January 2012.

In 2008, variable remuneration for Managing Directors was a maximum of 28% of the base salary, of which the annual short-term element was a maximum of 21% and the deferred long-term element a maximum of 7%. Based on its assessment of the short-term targets, the Supervisory Board awarded short-term variable remuneration for 2008 to Mr Walkier of 10.4% of his base salary and to Mr A.J.M.M. van Cleef of 9.1%. Mr Van Cleef stood down as Managing Director on 1 January 2010 as he would be reaching retirement age. The long-term element of the variable remuneration was 3.5% of the base salary for Mr Walkier and 3.0% for Mr Van Cleef.

The following weighting factors were set with respect to the long-term elements in 2008.

- Maintenance of the AAA rating
- Market shares
- Return on equity
- Capital ratio

The fixed remuneration comprises the base salaries for 13 months as well as an 8% holiday allowance. The members of the Managing Board are granted a partly taxed annual expense allowance of €2,832 each. Mr Van Cleef, a former member of the Managing Board, was paid €143,000 in 2010, in accordance with the arrangement set out in the Annual Report 2009. Pension benefits paid to Mr Van Cleef were €87,000 for 2010.

In February 2012, the Remuneration and Appointment Committee likewise assessed NWB Bank's actual results against the pre-determined long-term targets, concluding that all long-term Managing Board targets were achieved in full. On that basis, the Committee submitted a proposal to the Supervisory Board. In acceptance

The table below provides an overview of the remuneration for Managing Board members for 2011 and 2010:

| (in thousands of euros) | Fixed remuneration | Variable short-term remuneration | Payment of 2008 long-term remuneration | Pension costs and life-course savings plan |
|---|---|---|---|---|
| **2011** | | | | |
| R.A. Walkier | 276 | 28 | 9 | 93 |
| L.M.T. van Velden | 208 | 21 | n/a | 56 |
| | **484** | **49** | **9** | **149** |
| **2010** | | | | |
| R.A. Walkier | 274 | 27 | n/a | 90 |
| L.M.T. van Velden | 207 | 21 | n/a | 54 |
| | **481** | **48** | | **144** |

of the proposal from the Remuneration and Appointment Committee, the Supervisory Board decided that the long-term element of the variable remuneration conditionally granted to the members of the Managing Board would be made payable. This is 3.5% of the base salary for 2008 (€9,274) for Mr Walkier and 3.0% of the base salary for 2008 (€7,646) for Mr Van Cleef.

### Long-term variable remuneration conditionally granted for 2009 to 2011

The long-term elements of the variable remuneration for 2009, 2010 and 2011 conditionally granted by the Supervisory Board to Mr Walkier amount to to €15,000, €14,000 and €14,000 respectively, representing 5.5% of his base salary for 2009 and 5% of his base salary for 2010 and 2011. The long-term element of the variable remuneration for 2009 conditionally granted to former Managing Board member Mr Van Cleef amounts to €10,000, representing 4.6% of his base salary. The long-term elements of the variable remuneration for 2010 and 2011 conditionally granted to Ms Van Velden, who succeeded Mr Van Cleef as a Managing Board member with effect from 1 January 2010, amount to €10,000 and €10,000, respectively, representing 5% of her base salary. Every four years, the Supervisory Board assesses whether the long-term targets for each year were achieved and, accordingly, whether the long-term variable remuneration conditionally awarded is paid out, following any adjustment deemed necessary.

## Remuneration policy with respect to the employees

### General

NWB Bank pursues a moderate and sustainable remuneration policy that is in keeping with its strategy. It acknowledges that it operates at the interface of the financial and public sectors, which may affect the scope for – and limits to – its remuneration policy.

The remuneration policy with respect to NWB Bank's employees is aimed at recruiting and retaining qualified and skilled staff. Its defining feature is consistency, and it applies to all employees.

NWB Bank applies the CLA, which provides a framework for terms and conditions of employment and salary scales that the Bank uses as its point of reference.

## Fixed remuneration

Fixed remuneration comprises 12 monthly salaries, a holiday allowance and a 13th month's salary payment, subject to annual indexation in line with arrangements made under the CLA. Furthermore, a margin of 15%, at a maximum, may be set in excess of the job-specific salary (performance assessment supplement). This supplement is awarded in stages, provided that the relevant employee has performed well.

## Variable remuneration

Variable remuneration takes the form of a plan under which a bonus of up to 7% of the employee's annual salary is awarded. The percentage is established on the proposal of the employee's manager, in liaison with the Managing Board. The award is a discretionary power of the Managing Board. In setting the percentage, the achievement of targets formulated during the HR cycle and the overall assessment of the relevant employee are considered. The Bank sets great store by non-financial performance. It also applies a risk adjustment.

Besides the bonus plan, NWB Bank operates a profit-sharing plan under which 7.5% of the employee's annual salary is paid out if the Bank has made a profit as defined under the plan.

The Bank does not operate any stock option or stock ownership plans. It has a low risk profile and its core operations are homogenous in nature. Furthermore, the relatively small variable remuneration component comprises no more than 14.5% of the base salary (the profit-sharing element of which is a maximum of 7.5%, while the performance bonus is a maximum of 7%). Accordingly, the Bank has chosen not to pursue any policy aimed at partial payment of the variable remuneration in the form of Bank-related ownership securities.

## Pensions

NWB Bank operates a group pension plan for its employees, bearing the pension premiums in full. The Bank has various pension regulations governed by the CLA's pension protocols. The plans in place until 1999 and that for 1 January 1999 to 1 January 2002 are closed final pay plans. Since 1 January 2002, the Bank has operated an average pay plan with an accrual rate of 1.85% in each year of service.

In line with the relevant CLA provisions, pre-pension benefits accrued before 1 January 2006 are subject to annual indexation. In addition, an annual amount in partial compensation is paid in accordance with the life-course savings plan as part of the employee's salary.

## Other terms and conditions of employment

The Bank offers its employees various other fringe benefits, such as supplementary incapacity for work insurance, a mortgage interest plan, reimbursement of study expenses and a bicycle plan. In addition, it generally makes cars available to heads of department.

## Remuneration of members of the Supervisory Board in 2011/2012

The remuneration of the members of the Supervisory Board is regularly compared with that in similar companies and is set by the General Meeting of Shareholders. It has not changed since 2003, nor has it been subject to indexation. The Board believes that its remuneration should be in line with market practice. The Supervisory Directors' workload and responsibilities have increased significantly over the past few years. For these reasons, the Board has decided to instruct an external agency to review the current remuneration levels. In late 2011, the agency performed a benchmark study against other state-held enterprises and small private banks. Based on the outcome, it was established that the Supervisory Board's remuneration levels are relatively low, compared with peers. It was nevertheless decided to refrain from increasing their remuneration for the time being.

Current remuneration levels are as follows:

| | | |
|---|---|---|
| Chairman | € 18,570 | per annum |
| Deputy Chairman | € 14,350 | per annum |
| Members | € 12,380 | per annum |

Effective 1 July 2007, the following fees apply to committee members.

- An attendance fee of €750 for each meeting, both for members of the Audit and Risk Committee and for members of the Remuneration and Appointment Committee
- A fixed annual membership fee of €4,000 for members of the Audit and Risk Committee and €3,000 for members of the Remuneration and Appointment Committee

These fees were likewise reviewed by the external agency, and it will be proposed not to change them.

Details of the remuneration of the members of the Supervisory Board can be found in the notes to the 2011 financial statements (page 75). Their remuneration includes no variable components or options plans.

Albert Vermuë,

Director of the Dutch Association of Water Boards

# "The Delta Programme will boost the water boards' borrowing requirement."





**Albert Vermuë agrees with Cees Veerman, who, as the Delta Committee's chair, described the Dutch water safety issue as "urgent, but not critical". He believes it does not do any harm that the Dutch are confronted with the facts from time to time, most recently by water problems as well as various television programmes.**

"From times immemorial, the water boards have acted as the Dutch water management authorities. They're doing their job so well that hardly anyone notices they're doing it. We tend to take things for granted as long as they go well. In a way, that makes it harder to get the message across that finance is needed."

"That's why we've always advocated a Delta Programme in which all authorities involved collaborate waterwise. Regardless of whether you're a global warming sceptic or a believer, it's a bare fact that the sea level is rising while the land level is falling. Our increasing population must be protected, as well as economic interests, buildings and infrastructure. As extreme climate conditions become more frequent, we really need to raise awareness broadly among the public."

"The Delta Programme Commissioner is right in underlining that the Delta Programme is owned by the provincial authorities, the municipal authorities and the water boards as well as the central government. "You're making changes to people's surroundings, so other tiers of government also have their responsibilities. There's no other way to do this than doing it together."

"Everyone realises it needs to be done, but the measures are drastic. We need to promote safety not just in terms of keeping our feet dry. We also need to make sure we have enough fresh water, because the economic interests involved are huge. In the Rijnland region, for example, there's a large concentration of tree nurseries that are highly profitable but need fresh water. We need to look ahead and see how we can let sectors like these flourish even when conditions change, and be fair about what can and cannot be expected of us. We're living close to the coast, try to limit our salt water inlet and use all our

"Our joint challenge for the years ahead goes far beyond achieving the Delta Programme's objectives."





technological ingenuity to make sure we have enough high-quality fresh water, but that doesn't mean we shouldn't be looking at alternative solutions in the coming years, such as switching to more resistant crops."

"Between themselves, the water boards annually bring in roughly €2.5 billion from the taxpayers, a large portion of which goes towards maintenance of dykes and dams. Until recently, the arrangement was that the central government paid for the construction of those structures, while the water boards took care of their management and maintenance. However, under the Delta Programme, the ownership of the high-water protection structures will be shared, with the central government and the water boards each footing half of the bill. Management and maintenance will still be performed by the water boards."

"So the borrowing requirement will be given a boost over the next few years. That's because the water boards will be contributing 50% towards the investments needed to keep our nation safe, while it will be allocated new duties, with the associated need for finance, following the Delta decisions to be made in the political arena in 2015."

"NWB Bank fulfils a material function for its shareholders, so it has a major task ahead to ensure the availability of sufficient capital – offering finance at favourable rates in competition with other banks.
I can certainly see a growing need for those services. Incidentally, new European legislation is on the cards that is aimed at regulating government indebtedness, to put it mildly. Just to keep a finger on the pulse."

"Our joint challenge for the years ahead goes far beyond achieving the Delta Programme's objectives. Just think of regional planning processes, in which an industrial estate, a nature reserve or a city's access roads are tackled. But you need to be strict in terms of financing. We are focusing on our core duties – water safety, fresh water supply and clean water – but if other parties could achieve their objectives at the same time, that would be ideal. It would improve plans in terms of both quality and public support. Having said that, there's no such thing as a free lunch."

# Financial Statements

# Statement of income

## For the year ended 31 December 2011

| (in millions of euros) | Notes | 2011 | 2010 |
|---|---|---|---|
| Interest and similar income | | **1,832** | 1,779 |
| Interest and similar expense | | **1,757** | 1,675 |
| **Interest** | 1 | **75** | 104 |
| Results from financial transactions | 2 | **38** | 30 |
| Other operating income | | **0** | 0 |
| **Total operating income** | | **113** | 134 |
| Employee benefits expense | 3 | **5** | 4 |
| Other administrative expenses | 4 | **9** | 6 |
| Contribution to Stichting NWB Fonds | 5 | **-** | 2 |
| **Employee benefits expense and other administrative expenses** | | **14** | 12 |
| Depreciation, amortisation and value adjustments of tangible and intangible assets | 6 | **1** | 1 |
| Other operating expenses | | **-** | - |
| **Total operating expenses** | | **15** | 13 |
| Profit from ordinary operations before tax | | **98** | 121 |
| Tax on profit from ordinary operations | 7 | **23** | 30 |
| **Net profit** | | **75** | 91 |

# Balance sheet

## As at 31 December 2011 before appropriation of profit

| (in millions of euros) | Notes | **2011** | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 8 | **276** | 13 |
| Banks | 9 | **4,331** | 2,363 |
| Loans and receivables | 10 | **53,932** | 46,968 |
| Interest-bearing securities | 11 | **1,471** | 2,471 |
| Intangible assets | 12 | **2** | 1 |
| Tangible fixed assets | 13 | **6** | 7 |
| Income tax | 14 | **-** | 18 |
| Deferred tax assets | 15 | **-** | 0 |
| Other assets | 16 | **68** | 52 |
| Derivative assets | 17 | **6,801** | 4,659 |
| Prepayments and accrued income | 18 | **809** | 806 |
| **Total assets** | | **67,696** | 57,358 |
| **Equity and liabilities** | | | |
| Banks | 19 | **2,036** | 1,515 |
| Funds entrusted | 20 | **1,518** | 2,411 |
| Debt securities | 21 | **53,317** | 45,786 |
| Income tax | 14 | **22** | - |
| Deferred tax liabilities | 15 | **2** | - |
| Other liabilities | 22 | **61** | 66 |
| Derivative liabilities | 23 | **8,839** | 5,704 |
| Accruals and deferred income | 24 | **710** | 738 |
| Provisions | 25 | **3** | 3 |
| | | **66,508** | 56,223 |
| Paid-up and called-up share capital | 26 | **7** | 7 |
| Interest-bearing securities revaluation reserve | 27 | **3** | 1 |
| Other revaluation reserves | 27 | **0** | 1 |
| Other reserves | 28 | **1,103** | 1,035 |
| Profit for the year | 29 | **75** | 91 |
| Equity | | **1,188** | 1,135 |
| **Total equity and liabilities** | | **67,696** | 57,358 |
| Contingent liabilities | 30 | **5,276** | 6,315 |
| Irrevocable commitments | 31 | **206** | 199 |

# Statement of comprehensive income

## For the year ended 31 December 2011

| (in millions of euros) | **2011** | 2010 |
|---|---|---|
| Net changes in the interest-bearing securities revaluation reserve | **3** | 0 |
| Net changes in other revaluation reserves | **-1** | - |
| Income tax on income and expense recognised directly in equity | **-1** | |
| Income and expense recognised directly in equity | **1** | 0 |
| Net profit | **75** | 91 |
| **Comprehensive income (excluding the cumulative effect of adoption of NL GAAP)** | **76** | 91 |

# Statement of changes in equity

For the year ended 31 December 2011

| (in millions of euros) | Paid-up share capital | Interest-bearing securities revaluation reserve | Other revaluation reserves | Other reserves | Profit for the year | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2009** | **7** | **-29** | **1** | **1,011** | **57** | **1,047** |
| Net effect of adoption of NL GAAP (see Note 36) | | 30 | | 7 | | 37 |
| **As at 1 January 2010** | **7** | **1** | **1** | **1,018** | **57** | **1,084** |
| Profit appropriation of previous year | | | | 57 | -57 | |
| Dividends | | | | -40 | | -40 |
| Change in value of interest-bearing securities | | 0 | | | | 0 |
| Profit for the year | | | | | 91 | 91 |
| **As at 31 December 2010** | **7** | **1** | **1** | **1,035** | **91** | **1,135** |
| **As at 1 January 2011** | **7** | **1** | **1** | **1,035** | **91** | **1,135** |
| Profit appropriation of previous year | | | | 91 | -91 | - |
| Dividends | | | | -23 | | -23 |
| Change in value of interest-bearing securities | | 2 | | | | 2 |
| Revaluation of tangible fixed assets | | | -1 | | | -1 |
| Profit for the year | | | | | 75 | 75 |
| **As at 31 December 2011** | **7** | **3** | **-** | **1,103** | **75** | **1,188** |

# Statement of cash flows

## For the year ended 31 December 2011

| (in millions of euros) | 2011 | 2010 |
|---|---|---|
| Profit before income tax | 98 | 121 |
| **Adjusted for:** | | |
| Income tax | -23 | 7 |
| Depreciation, amortisation and value adjustments of tangible and intangible assets | 1 | 1 |
| Change in value of assets and liabilities for fair value hedge accounting | 154 | -68 |
| **Changes in:** | | |
| Bank loans and receivables not available on demand | -1,542 | -1,248 |
| Public-sector loans and receivables | -3,470 | -2,942 |
| Funds entrusted | -950 | -454 |
| Income tax paid | 40 | 1 |
| Other assets and liabilities | -47 | 50 |
| **Net cash flows used in operating/banking activities** | -5,739 | -2,036 |
| Additions to interest-bearing securities | -250 | 0 |
| Sales and redemptions of interest-bearing securities | 1,205 | 437 |
| Balance | 955 | 437 |
| Additions to property and equipment | -1 | -2 |
| Disposals | 0 | 0 |
| Balance | -1 | -2 |
| Additions to intangible assets | -1 | 0 |
| **Net cash flows from investing activities** | 953 | 435 |
| Issued bond loans, notes | 8,092 | 9,679 |
| Repayment of bond loans, notes | -5,997 | -5,592 |
| Issued CD/CP | 23,104 | 27,035 |
| Repayment of CD/CP | -20,127 | -29,935 |
| Balance | 5,072 | 1,187 |
| Dividend paid | -23 | -40 |
| **Net cash flows from financing activities** | 5,049 | 1,147 |
| **Cash flow** | 263 | -454 |

| (in millions of euros) | 2011 | 2010 |
|---|---|---|
| Cash flow | **263** | -454 |
| Cash and cash equivalents as at 1 January | **13** | 467 |
| **Cash and cash equivalents as at 31 December** | **276** | 13 |
| **Cash and cash equivalents comprise:** | | |
| Banks, balances available on demand | **0** | 0 |
| Banks, cash and receivables | **276** | 13 |
| **Cash and cash equivalents as at 31 December** | **276** | 13 |

The amount disclosed under "Change in value of assets and liabilities for fair value hedge accounting" is made up of changes in value of financial assets and liabilities for fair value hedge accounting, changes in value of derivatives, and penalties paid and exchange differences.

In 2011, interest payments of €1,838 million were made (2010: €1,645 million) and interest income of €1,762 million was received (2010: €1,751 million). These amounts are included under Other assets and liabilities in the statement of cash flows.

# Notes to the Financial Statements

## Corporate information

The 2011 financial statements of Nederlandse Waterschapsbank N.V. (NWB Bank) were prepared by the Managing Board and authorised for issue by the Supervisory Board on 8 March 2012 and will be submitted for approval to the Annual General Meeting of Shareholders (AGM) on 26 April 2012.

NWB Bank is a public limited liability company established in The Hague, whose shares are owned by public authorities. NWB Bank's services are geared exclusively to the public sector. It finances water boards, municipal authorities and provincial authorities, as well as other public-sector bodies, such as housing corporations, hospitals and educational institutions.

## Basis of preparation

### Statement of compliance

The financial statements of NWB Bank have been prepared in accordance with the statutory requirements contained in Part 9 of Book 2 of the Dutch Civil Code and accounting principles generally accepted in the Netherlands (NL GAAP).

## Changes in accounting policies

As of 1 January 2011, NWB Bank prepares its annual financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code and accounting principles generally accepted in the Netherlands (NL GAAP). Until 2010, the Bank applied International Financial Reporting Standards as endorsed by the European Union (IFRS-EU). It is possible for NWB Bank to convert to NL GAAP since it does not prepare consolidated financial statements.

Upon adoption of IFRS-EU on 1 January 2005, the fair value option was applied to a large portion of the loans portfolio, which, based on current post-credit crisis insights, appears not to suit the nature of the Bank's operations very well. Due to the changes in spreads seen in the markets for loans, the measurement of the loans granted to or guaranteed by the Dutch public authorities resulted in significant unrealised fair value changes recorded since 2008. Over the past few years, NWB Bank's results were substantially impacted by these spreads for liquidity and credit risks. Under its operating model, NWB Bank generally holds loans until they mature, rather than selling them early. Furthermore, the credit risk, and hence the repayment risk, on the loans it grants to the Dutch public authorities is very low. These factors make such unrealised fair value changes less relevant to the determination of the Bank's profit and financial position for external reporting purposes.

IFRS-EU does not allow to cease to apply the fair value option and use fair value hedge accounting instead. Given that it is very common in the banking sector to use hedge accounting, the Bank has decided to convert to NL GAAP while applying hedge accounting to the majority of its loans portfolio.

In line with the Bank's present risk management policy and the relevant documentation that is in place, the assumption is that hedge accounting started upon inception of the related positions. In doing so, NWB Bank aims for its financial reporting to better reflect its actual financial situation. It believes a better view will be given of the Bank's financial position and results.

The impact the change in accounting policies has on equity and results is disclosed in Note 36.

# Summary of significant accounting policies

## General

These financial statements have been prepared in part on a historical cost basis. Certain interest-bearing securities, derivatives and property are stated at fair value. The financial statements are presented in millions of euros and all amounts in the Notes are rounded to the nearest thousand (€000), except when otherwise indicated.

## Recognition

An asset is recognised when it is probable that the future economic benefits will flow to the company and the asset can be measured reliably. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which settlement will take place can be measured reliably.

A financial asset or financial liability is recognised on its transaction date. Accordingly, a financial asset or financial liability is recognised from the time the company has the right to the benefits from or is bound by the obligations arising from the contract terms of the financial instrument.

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

## Derecognition of financial assets and liabilities

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

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

## Measurement

Upon initial recognition, financial assets and liabilities are stated at fair value, including transaction costs directly attributable to the asset's or liability's acquisition or issue, with the exception of the transactions recorded at fair value through profit or loss. The transactions recorded in those balance sheet items do not include transactions costs. The fair value is the amount for which an asset could be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties.

Insofar as a relevant middle rate is available, it is used as the best indication of fair value. For the majority of NWB Bank's financial instruments, the fair value cannot be established on the basis of a relevant middle rate because there is no listing or active market.

NWB Bank calculates the fair value of these other financial assets and liabilities using 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, option pricing models have been used.

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

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





## Hedge accounting

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

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

## Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at the spot middle rates (Amsterdam exchange rates) ruling at the balance sheet date. The use of middle rates is connected to the policy of NWB Bank, which states that all foreign currency positions are hedged individually, and which effectively causes the day-to-day foreign currency-denominated flows of funds to be virtually nil.

Gains or losses arising from transactions in foreign currencies are translated at the rates ruling on the transaction date. All currency translation differences of monetary assets and liabilities are recognised in profit or loss.

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

## Loans and receivables and banks

Loans and receivables and banks are stated at amortised cost using the effective interest method. A provision for uncollectibility is formed in the event of expected uncollectibility.

## Interest-bearing securities

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





### Interest-bearing securities held to maturity

Purchased loans, receivables and bonds with fixed or determinable payments that NWB Bank has a positive intention and the contractual and economic ability to hold to maturity are stated at amortised cost using the effective interest method.

### Other unlisted interest-bearing securities

Other unlisted interest-bearing securities are stated at amortised cost using the effective interest method.

### Other listed interest-bearing securities

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

## Intangible assets

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

## Tangible fixed assets

Tangible fixed assets are property and equipment. They are stated at fair value and cost, respectively, net of straight-line depreciation. The fair value of property is assessed annually and measured regularly based on valuations conducted by independent property valuers. Depreciation on these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

Annual depreciation rates are:

| | |
|---|---|
| ■ Building | 2,5% |
| ■ Fixtures and installations | 10% |
| ■ Equipment, furniture and fittings, etc.: | |
| - furniture and fittings, etc. | 10% |
| - office equipment | 20% |
| ■ Computer equipment: | |
| - personal computers | 20% |
| - other equipment | 20% |
| ■ Cars | 20% |

Land is not depreciated.

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

## Derivatives

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

Derivatives are recognised initially at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised directly in profit or loss as results from financial transactions.

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

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

Derivatives meeting these characteristics are included in the balance sheet under the host contracts to which they belong and carried at fair value at the time of the contract's inception, 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 and debt securities

All loans under banks, funds entrusted and debt securities 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 profit or loss when the liabilities are derecognised.

## Employee benefits - defined benefit plan obligations

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





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

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

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

Actuarial gains and losses are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous financial year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are amortised over the expected average remaining working lives of the employees participating in the plans.

## Offsetting

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

### Interest

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

## Income tax

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

### Current tax assets and liabilities

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





### Deferred tax assets

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

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

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

In recognising deferred tax assets, account is taken of the income tax due on the changes in value of the interest-bearing securities included under Available-for-sale financial assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable 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, as well as investing and financing activities.
Cash and cash equivalents represent those assets which can be converted into cash without restriction, including the cash available as well as balances payable on demand at central banks.

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

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

## Segment information

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





## Significant assumptions and estimation uncertainties

The preparation of the annual financial statements in accordance with NL GAAP 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 expenditure. 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 assets and liabilities which cannot be easily established from other sources. The actual outcomes may differ from these estimates.

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

Opinions formed by the Managing Board for the application of NL GAAP that could have a significant impact on the annual financial statements and estimates containing a substantial risk of a material adjustment in a subsequent financial year relate primarily to the measurement of financial assets and liabilities stated at fair value, as well as to the assumptions underlying the hedge accounting models.

## 1 Interest

Interest income consists of interest income on loans and receivables, interest-bearing securities and commissions having an interest nature. Premiums and discounts on loans and receivables not stated at fair value are recognised using the effective interest method, together with the relevant interest income.

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as commissions having an interest nature, penalty interest on early redemptions, 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.

| | **2011** | 2010 |
|---|---|---|
| Interest income on loans and receivables at amortised cost | **1,768,754** | 1,692,503 |
| Interest income on interest-bearing securities | **63,408** | 86,319 |
| **Interest income** | **1,832,162** | 1,778,822 |
| Interest expense on banks, funds entrusted and debt securities at amortised cost | **-1,081,760** | -913,564 |
| Derivatives (net interest income/expense) | **-675,558** | -761,662 |
| **Interest expense** | **-1,757,318** | -1,675,226 |
| **Interest** | **74,844** | 103,596 |

Interest income on loans and receivables at amortised cost includes a one-off gain of €0.4 million from a realised foreign exchange difference upon sale in 2011 (2010: €17.1 million).

## 2 Results from financial transactions

This item can be broken down as follows:

| | 2011 | 2010 |
|---|---|---|
| **Unrealised changes in value:** | | |
| Revaluation of hedged positions recognised in profit or loss | **2,504,767** | 988,592 |
| Revaluation of hedging instruments | **-2,486,637** | -970,998 |
| Unrealised revaluation of interest-bearing securities | **9,490** | 29,098 |
| | **27,620** | 46,692 |
| **Realised changes in value:** | | |
| Gain/(loss) on sale | **10,659** | -16,719 |
| Other | **-** | -2 |
| | **10,659** | -16,721 |
| **Total** | **38,279** | 29,971 |

The realised changes in value include premiums and fees received on settlement of derivative contracts, realised (revaluation) results on the sale of interest-bearing securities and commission. On the assets side of the balance sheet, the fair value of the hedging instruments is €9,657 million at 31 December 2011 (31 December 2010: €5,194 million). On the liabilities side, the fair value of the hedging instruments is €9,640 million at 31 December 2011 (31 December 2010: €5,270 million).

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

## 3 Employee benefits expense

| | 2011 | 2010 |
|---|---|---|
| Wages and salaries | **3,319** | 3,171 |
| Pension costs | **801** | 624 |
| Social security costs | **283** | 267 |
| Other | **610** | 315 |
| | **5,013** | 4,377 |

The remuneration, including regular pension costs, of the members of the Managing Board amounted to €691,000 in 2011 (2010: €673,000). The average number of employees expressed in FTEs, including the Managing Board, was 38.7 (2010: 36.5).

## Remuneration of members of the Managing Board

| | Fixed remuneration | Variable remuneration | Pension costs and life-course savings plan |
|---|---|---|---|
| **2011** | | | |
| L.M.T. van Velden | 208 | 21 | 56 |
| R.A. Walkier | 276 | 37 | 93 |
| | **484** | **58** | **149** |
| **2010** | | | |
| L.M.T. van Velden | 207 | 21 | 54 |
| R.A. Walkier | 274 | 27 | 90 |
| | **481** | **48** | **144** |

The fixed remuneration comprises the fixed salaries for 13 months as well as an 8% holiday allowance. The members of the Managing Board are also granted a partly taxed annual expense allowance of €2,800 each. In addition, the Bank has made a car available to them.

The Supervisory Board has decided to definitively grant the long-term element of the variable remuneration for 2008. For Mr Walkier, this amount (€9,274) is included under variable remuneration. Former Managing Board member Mr A.J.M.M. Van Cleef will receive an amount of €7,646.

Long-term elements of the variable remuneration for 2009, 2010 and 2011 conditionally granted to Mr Walkier amount to €15,000, €14,000 and €14,000, respectively, representing 5.5% of his fixed remuneration for 2009 and 5% of his fixed remuneration for 2010 and 2011. The long-term element of the variable remuneration for 2009 conditionally granted to Mr Van Cleef amounts to €10,000, representing 4.6% of his fixed remuneration. The long-term elements of the variable remuneration for 2010 and 2011 conditionally granted to Ms Van Velden amount to €10,000 and €10,000, respectively, representing 5% of her fixed remuneration.

## 4 Other administrative expenses

These include accommodation, office and general expenses. The remuneration of the seven (2010: 7) Supervisory Board members, which is also included in this item, amounted to €180,000 (2010: €168,000).

### Remuneration of members of the Supervisory Board

| | **2011** | 2010 |
|---|---|---|
| Dr. J.C.K.W. Bartel | **-** | 8 |
| E.F. Bos | **25** | 26 |
| Professor R.G.C. van den Brink | **48** | 42 |
| P.C.G. Glas | **9** | - |
| Professor J.J.M. Jansen | **18** | 10 |
| A.J.A.M. Segers | **8** | 24 |
| V.I. Goedvolk | **32** | 27 |
| E.H. baron van Tuyll van Serooskerken | **16** | 14 |
| B.J.M. baron van Voorst tot Voorst | **24** | 17 |
| | **180** | 168 |

The above amounts include membership fees for committees and VAT, if any.

### Audit fees

In the financial year, the following fees were recognised, within the meaning of Section 382a of Book 2 of the Dutch Civil Code. The amounts include VAT.

| | **2011** | 2010 |
|---|---|---|
| Audit of the financial statements | **400** | 277 |
| Other assurance engagements | **512** | 36 |
| Other non-assurance services | **12** | 61 |
| | **924** | 374 |

The increase in audit fees relates to services provided in connection with the conversion from accounting policies under IFRS-EU to those under NL GAAP and prior-year non-recurring expenses.

## 5 Contribution to Stichting NWB Fonds

In 2011, no contribution was made to Stichting NWB Fonds (2010: €2 million). Stichting NWB Fonds is an institution for general public advancement and is involved in encouraging developments in water management in developing countries. The Association of Water Boards nominates the majority of members of the management of Stichting NWB Fonds.

## 6 Depreciation and amortisation

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

## 7 Income tax expense

| | **2011** | 2010 |
|---|---|---|
| **Profit before income tax** | **98,422** | 120,664 |
| Income tax at 25.0% and 25.5%, respectively | **24,605** | 30,168 |
| Income tax adjustments for prior financial years | **-721** | -12 |
| Adjustment for deferred tax | **-** | -303 |
| Income tax on revaluation of tangible fixed assets | **-177** | - |
| **Income tax expense** | **23,707** | 29,853 |
| **Effective tax burden (%)** | **24.1%** | 24.7% |

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

| | **2011** | 2010 |
|---|---|---|
| **Current tax** | | |
| For the year under review | **38,143** | 11,477 |
| Income tax adjustments for prior financial years | **-721** | -12 |
| | **37,422** | 11,465 |
| **Deferred tax** | | |
| Release of deferred tax asset arising when the Bank first became liable to tax | **8,080** | 9,110 |
| Recalculation of deferred tax based on changed accounting policies | **-** | 10,027 |
| Creation of deferred provision for pensions | **-** | -759 |
| Addition to deferred provision for pensions | **15** | -18 |
| Recalculation of deferred tax based on new corporate income tax rate | **-** | 5 |
| Income tax on income and expense recognised directly in equity | **-678** | 23 |
| Results from 'basisrentelening' loans deferred for tax purposes | **-786** | - |
| Change due to changes in measurement | **-20,346** | - |
| | **-13,715** | 18,388 |
| **Income tax expense** | **23,707** | 29,853 |





The current tax charge for the 2011 financial year (€38,143) is higher than that based on the statutory tax rate of 25.0%. This is caused primarily by the change in measurement of the tax bases of assets and liabilities. In 2011, their tax base was cost, whereas the lower value in use had been used up to and including 2010.

## 8 Cash and cash equivalents

This item consists of legal tender and on-demand balances at De Nederlandsche Bank.

## 9 Banks

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

It can be broken down as follows:

| | **2011** | 2010 |
|---|---|---|
| Balances payable on demand | **94** | 136 |
| Receivables under collateral arrangements | **4,330,590** | 2,362,480 |
| **Total** | **4,330,684** | 2,362,616 |

## 10 Loans and receivables

This item consists of loans and receivables, other than interest-bearing securities, from customers other than banks. The receivables, which, apart from several employee loans, are all to public-sector customers, are mostly long-term. Public-sector loans and receivables are understood to include those to or guaranteed by the Dutch government and public authorities abroad, and to government-controlled public limited liability companies and other businesses or institutions whose tasks derive from public authorities.

Changes in loans and receivables were as follows:

| | **2011** | 2010 |
|---|---|---|
| **Balance as at 1 January** | **46,967,501** | 43,061,893 |
| Newly granted | **14,189,043** | 16,085,899 |
| Redemptions | **-10,718,934** | -13,143,348 |
| Value adjustment for fair value hedge accounting | **3,504,524** | 967,862 |
| Fair value of separated derivatives embedded in loans and receivables | **-9,805** | -4,805 |
| **Balance as at 31 December** | **53,932,329** | 46,967,501 |



Breakdown of public-sector loans and receivables by nature of the receivable:

| | **2011** | 2010 |
|---|---|---|
| Receivables from or under guarantee from the Dutch government | **46,755,740** | 43,189,646 |
| Receivables from or under guarantee from foreign governments | **25,565** | 125,565 |
| Other loans to and receivables from the public sector and others | **365,125** | 361,110 |
| Value adjustment for fair value hedge accounting | **6,803,063** | 3,298,539 |
| Fair value of separated derivatives embedded in loans and receivables | **-17,164** | -7,359 |
| | **53,932,329** | 46,967,501 |

Receivables from or under guarantee from the Dutch government can be broken down as follows:

| | **2011** | 2010 |
|---|---|---|
| Water boards | **5,139,491** | 4,997,386 |
| Municipal authorities | **7,022,671** | 6,956,080 |
| Housing corporations | **29,213,962** | 26,841,245 |
| Other | **5,379,616** | 4,394,935 |
| | **46,755,740** | 43,189,646 |

Given the risk profile of NWB Bank's counterparties, a provision for uncollectibility is not necessary as at the balance sheet date.

| | 2011 | 2010 |
|---|---|---|
| Loans to and receivables from former members of the Managing Board outstanding: | **460** | 460 |

## 11 Interest-bearing securities

This item can be broken down as follows:

| | 2011 | 2010 |
|---|---|---|
| Interest-bearing securities held to maturity | **842,106** | 1,040,416 |
| Other listed interest-bearing securities | **567,994** | 1,348,532 |
| Other unlisted interest-bearing securities | **61,085** | 81,753 |
| | **1,471,185** | 2,470,701 |

The movement in interest-bearing securities in 2011 and 2010 was as follows:

| | Public-sector bodies | Others | Total |
|---|---|---|---|
| **Balance as at 1 January 2011** | 1,093,582 | 1,377,119 | **2,470,701** |
| Purchases | 250,000 | - | **250,000** |
| Sales and redemptions | -796,845 | -406,643 | **-1,203,488** |
| Changes in value of Other interest-bearing securities | -33,427 | -12,601 | **-46,028** |
| **Balance as at 31 December 2011** | 513,310 | 957,875 | **1,471,185** |

| | Public-sector bodies | Others | Total |
|---|---|---|---|
| **Balance as at 1 January 2010** | 1,365,612 | 1,480,259 | **2,845,871** |
| Purchases | - | - | **-** |
| Sales and redemptions | -333,444 | -100,334 | **-433,778** |
| Changes in value of Other interest-bearing securities | 61,414 | -2,806 | **58,608** |
| **Balance as at 31 December 2010** | 1,093,582 | 1,377,119 | **2,470,701** |

Of the interest-bearing securities, €42 million (2010: €119 million) has a term to maturity of less than twelve months.

## 12 Intangible assets

This item comprises costs and expenses related to software.

The breakdown of this item in 2011 and 2010 was as follows:

| | 2011 | 2010 |
|---|---|---|
| **Carrying amount as at 1 January** | **1,099** | 1,279 |
| Additions | **1,373** | 269 |
| Amortisation | **-482** | -449 |
| **Carrying amount as at 31 December** | **1,990** | 1,099 |

At 31 December, the cumulative amounts were:

| | 2011 | 2010 |
|---|---|---|
| Additions | **3,697** | 2,324 |
| Amortisation | **-1,707** | -1,225 |
| **Carrying amount as at 31 December** | **1,990** | 1,099 |



## 13 Tangible fixed assets

The breakdown of tangible fixed assets and their changes in 2011 are as follows:

| | Property in use by the Bank | Other equipment | Total |
|---|---|---|---|
| Carrying amount as at 31 December 2010 | 5,747 | 825 | **6,572** |
| Additions in 2011 | 1,023 | 18 | **1,041** |
| Disposals in 2011 | - | -7 | **-7** |
| Revaluations | -709 | - | **-709** |
| Depreciation in 2011 | -496 | -224 | **-720** |
| **Carrying amount as at 31 December 2011** | 5,565 | 612 | **6,177** |

As at 31 December 2011, the cumulative balances were:

| | Property in use by the Bank | Other equipment | Total |
|---|---|---|---|
| Additions | 8,991 | 5,801 | **14,792** |
| Depreciation | -3,684 | -5,189 | **-8,873** |
| Amortised cost | 5,307 | 612 | **5,919** |
| Revaluations | 258 | - | **258** |
| | 5,565 | 612 | **6,177** |

The fair value of the property was determined by an independent property valuer in 2011.

Other equipment consists mainly of furniture and fittings, computer equipment and cars.

| The breakdown of tangible fixed assets and their changes in 2010 are as follows: | Property in use by the Bank | Other equipment | Total |
|---|---|---|---|
| Carrying amount as at 31 December 2009 | 3,790 | 786 | **4,576** |
| Additions in 2010 | 2,265 | 321 | **2,586** |
| Disposals in 2010 | - | -20 | **-20** |
| Depreciation in 2010 | -308 | -262 | **-570** |
| **Carrying amount as at 31 December 2010** | 5,747 | 825 | **6,572** |
| As at 31 December 2010, the cumulative balances were: | | | |
| Additions | 7,968 | 5,783 | **13,751** |
| Depreciation | -3,188 | -4,958 | **-8,146** |
| Amortised cost | 4,780 | 825 | **5,605** |
| Revaluations | 967 | - | **967** |
| | 5,747 | 825 | **6,572** |





## 14 Income tax

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

This item relates to income tax payable on balance as at 31 December 2011 and income tax receivable on balance as at 31 December 2010.

| The breakdown of this item in 2011 and 2010 is as follows: | **2011** | 2010 |
|---|---|---|
| 2009 | **-** | 12,789 |
| 2010 | **-** | 5,633 |
| 2011 | **-21,314** | - |
| | **-21,314** | 18,422 |

| The amount receivable/payable for the financial years can be broken down as follows: | **2011** | 2010 |
|---|---|---|
| Current tax expense | **-38,143** | -11,477 |
| Advances paid | **16,829** | 17,110 |
| | **-21,314** | 5,633 |

## 15 Deferred tax assets and liabilities



The changes in deferred tax assets and liabilities were as follows:

| | **2011** | 2010 |
|---|---|---|
| **Balance as at 1 January** | **259** | 21,825 |
| Release when the Bank first became liable to tax | **-8,080** | -9,110 |
| Change as a result of temporary differences in the financial year recognised in profit or loss | **-15** | -10,296 |
| Change as a result of temporary differences in previous financial years recognised in profit or loss | **-** | -2,155 |
| Change as a result of tax rate changes in future financial years recognised in profit or loss | **-** | -5 |
| Change due to change in measurement of tax bases | **20,346** | - |
| Results from 'basisrentelening' loans deferred for tax purposes | **-14,542** | - |
| **Balance as at 31 December** | **-2,032** | 259 |



The change in measurement of tax bases means that assets and liabilities were measured at cost in 2011, whereas the lower value in use had been used up to and including 2010.

## 16 Other assets

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

## 17 Derivative assets

This item consists of interest rate swaps and currency swaps, options and caps. These products are carried at fair value, including accrued interest. Models are used for measurement purposes, using the swap curve for discounting.

Breakdown by remaining term to maturity of fair values as at 31 December 2011:

| | <3 months | 3-12 months | 1-5 years | >5 years | 2011 Total |
|---|---|---|---|---|---|
| Interest rate swaps | 4,189 | 7,297 | 477,283 | 1,430,614 | **1,919,383** |
| Currency swaps | 490,116 | 347,690 | 1,771,348 | 2,131,390 | **4,740,544** |
| Caps, floors and swaptions | - | - | - | 141,396 | **141,396** |
| **Total** | 494,305 | 354,987 | 2,248,631 | 3,703,400 | **6,801,323** |

Breakdown by remaining term to maturity of fair values as at 31 December 2010:

| | <3 months | 3-12 months | 1-5 years | >5 years | 2010 Total |
|---|---|---|---|---|---|
| Interest rate swaps | 5,545 | 23,554 | 520,173 | 892,268 | **1,441,540** |
| Currency swaps | 200,973 | 249,686 | 1,322,525 | 1,411,804 | **3,184,988** |
| Caps, floors and swaptions | 0 | 0 | 92 | 32,842 | **32,934** |
| **Total** | 206,518 | 273,240 | 1,842,790 | 2,336,914 | **4,659,462** |



## 18 Prepayments and accrued income

This item primarily comprises interest accrued on interest-bearing assets not recognised at fair value through profit or loss. It also comprises prepaid amounts for costs related to the next accounting period or periods and the uninvoiced amounts to be received regarding income recognised in the current or previous accounting period or periods.

## 19 Banks

This item consists of liabilities, other than debt securities, due to domestic and foreign banks. These liabilities result largely from long-term loans. The collateral included in this item concerns collateral held under collateral arrangements related to derivative contracts.

| This item can be broken down as follows: | 2011 | 2010 |
|---|---|---|
| Cash loans | **-** | 105,000 |
| Loans taken out at banks | **426,399** | 291,744 |
| Liabilities under collateral arrangements | **1,491,320** | 1,094,640 |
| Value adjustment for fair value hedge accounting | **118,013** | 24,022 |
| | **2,035,732** | 1,515,406 |

## 20 Funds entrusted

This item consists of liabilities, other than debt securities, due to parties other than banks.

| This item can be broken down as follows: | **2011** | 2010 |
|---|---|---|
| Funds entrusted | **1,422,256** | 2,372,050 |
| Value adjustment for fair value hedge accounting | **95,710** | 39,018 |
| | **1,517,966** | 2,411,068 |

## 21 Debt securities

This item, which consists of negotiable debt instruments, can be broken down as follows:

| | **2011** | 2010 |
|---|---|---|
| Bond loans | **42,271,529** | 39,033,311 |
| Short-term debt securities | **9,461,989** | 6,109,899 |
| Value adjustment for fair value hedge accounting | **2,074,432** | 1,281,721 |
| Fair value of separated derivatives embedded in debt securities | **-491,062** | -639,144 |
| | **53,316,888** | 45,785,787 |

Of the total amount in debt securities issued, €4,552 million (2010: €3,288 million) is negotiable and carries a variable interest rate.

In 2011 and 2010, NWB Bank did not purchase any of its own securities. The total amount in purchased own securities as at 31 December 2011 was nil (2010: € 170 million).

## 22 Other liabilities

This item consists principally of amounts payable and offsettable in connection with amounts to be amortised, payments in transit on the balance sheet date, a provision for employee benefits and income tax payable.

| | **2011** | 2010 |
|---|---|---|
| Prepaid interest and redemptions | **21,639** | 65,222 |
| Other liabilities | **39,431** | 1,178 |
| | **61,070** | 66,400 |

## 23 Derivative liabilities

This item consists of interest rate swaps and currency swaps, options and caps. These products are carried at fair value. Models are used for measurement purposes, using the swap curve for discounting.

Breakdown by remaining term to maturity of negative fair values as at 31 December 2011:

| **31 december 2011** | **<3 months** | **3-12 months** | **1-5 years** | **>5 years** | **2011 Total** |
|---|---|---|---|---|---|
| Interest rate swaps | 2,789 | 40,271 | 961,690 | 7,262,993 | **8,267,743** |
| Currency swaps | 3,413 | 17,085 | 46,417 | 369,218 | **436,133** |
| Caps, floors and swaptions | - | - | - | 134,898 | **134,898** |
| **Total** | 6,202 | 57,356 | 1,008,107 | 7,767,109 | **8,838,774** |

Breakdown by remaining term to maturity of negative fair values as at 31 December 2010:

| **31 december 2010** | **<3 months** | **3-12 months** | **1-5 years** | **>5 years** | **2010 Total** |
|---|---|---|---|---|---|
| Interest rate swaps | 4,050 | 69,591 | 917,856 | 3,622,215 | **4,613,712** |
| Currency swaps | 109,723 | 243,921 | 147,394 | 556,130 | **1,057,168** |
| Caps, floors and swaptions | - | 0 | 90 | 32,645 | **32,735** |
| **Total** | 113,773 | 313,512 | 1,065,340 | 4,210,990 | **5,703,615** |

## 24 Accruals and deferred income

This item primarily comprises interest accrued on interest-bearing liabilities. It also comprises advance receipts for income attributable to the next accounting period or periods and uninvoiced amounts payable in relation to expenses attributable to the past accounting period or periods.

## 25 Provisions

This item only comprises a provision for employee benefits.

| | **2011** | 2010 |
|---|---|---|
| Current service cost | **537** | 438 |
| Interest cost | **797** | 743 |
| Expected return on plan assets | **-608** | -634 |
| **Employee benefits expenses** | **726** | 547 |
| Defined benefit obligation | **17,830** | 16,525 |
| Fair value of plan assets | **-14,562** | -13,326 |
| | **3,268** | 3,199 |
| Net actuarial gains (losses) | **-283** | -152 |
| **Provision for employee benefits** | **2,985** | 3,047 |
| Opening defined benefit obligation | **16,525** | 14,571 |
| Interest cost | **797** | 743 |
| Current service cost | **537** | 438 |
| Benefits paid | **-515** | -559 |
| Actuarial losses (gains) on obligation | **486** | 1,332 |
| **Closing defined benefit obligation** | **17,830** | 16,525 |
| Opening fair value of plan assets | **13,326** | 12,965 |
| Expected return | **607** | 634 |
| Employer contributions | **788** | 475 |
| Benefits paid | **-515** | -559 |
| Actuarial gains (losses) | **356** | -189 |
| **Fair value of plan assets as at 31 December** | **14,562** | 13,326 |

The projected employer contributions for 2012 to the defined benefit plans as at 31 December 2011 amount to €803,000.

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

| | **2011** | 2010 |
|---|---|---|
| Discount rate | **4.8%** | 4.9% |
| Expected rate of return on plan assets | **4.8%** | 4.9% |
| Future salary increases | **2.0%** | 2.0% |
| Future pension increases | **2.0%** | 2.0% |

## 26 Paid-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 shareholders' meetings.

### 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 4 votes at shareholders' meetings.

Breakdown at year-end 2011:

| | Issued | Paid-up |
|---|---|---|
| **A shares** | | |
| Balance as at 31 December 2011 (50,478 shares) | 5,805 | 5,805 |
| **B shares** | | |
| Balance as at 31 December 2011 (8,511 shares) | 3,915 | |
| Of which unpaid: (74% of 8.510 shares) | -2,896 | |
| | | 1,019 |
| **Total paid up as at 31 December 2011** | | **6,824** |
| **Total paid up as at 31 December 2010** | | **6,824** |

## 27 Revaluation reserves

Movements in the revaluation reserves in 2011 and 2010 were as follows:

| | Interest-bearing securities revaluation reserve | Other revaluation reserves | Total |
|---|---|---|---|
| **Balance as at 1 January 2010** | 261 | 976 | **1,237** |
| Changes in value of interest-bearing securities | 396 | - | **396** |
| **Balance as at 31 December 2010** | 657 | 976 | **1,633** |
| Changes in value of interest-bearing securities | 2,035 | - | **2,035** |
| Revaluation of tangible fixed assets | - | -709 | **-709** |
| **Balance as at 31 December 2011** | 2,692 | 267 | **2,959** |

NWB Bank states certain assets, notably derivatives, at fair value. It has elected to consider the unrealised changes in their value arising upon the revaluation of such assets and the unrealised changes in the value of liabilities stated at fair value in the aggregate, given that these positions are also assessed in the aggregate as part of the Bank's risk management. If and to the extent that increases in the value of such assets must be included in a revaluation reserve pursuant to Section 390, subsection 1, of Book 2 of the Dutch Civil Code, the net amount in unrealised changes in fair value at 31 December 2011 did not give the Bank reason to form a revaluation reserve.

## 28 Other reserves

Changes in other reserves were as follows:

| | |
|---|---|
| **As at 1 January 2010** | 1,018,000 |
| Appropriation of 2009 profit | 57,000 |
| Distribution for 2009 | -40,000 |
| **As at 31 December 2010** | 1,035,000 |
| Appropriation of 2010 profit | 91,000 |
| Distribution for 2010 | -23,000 |
| **As at 31 December 2011** | 1,103,000 |

## 29 Profit for the year

The balance sheet is presented before profit appropriation. The proposed profit appropriation for 2011 is included under Other information.

## 30 Irrevocable commitments

These commitments relate to:

| | **2011** | 2010 |
|---|---|---|
| Loans granted but not yet paid | **3,999,712** | 4,363,076 |
| Increases in 'klimleningen' owing to accrued interest | **1,101** | 1,066 |
| Unused current account overdraft facilities | **518,482** | 758,367 |
| Unused financing facilities | **753,570** | 1,188,460 |
| Guarantees issued | **3,106** | 3,064 |
| | **5,275,971** | 6,314,033 |

## 31 Contingent liabilities

This item consists of commitments which could arise on guarantees issued (Standby Letters of Credit) in connection with the cross-border financing of water boards and bank guarantees issued to business contacts amounting to €206 million (2010: €199 million).

## 32 Fair value of financial instruments

### General

The fair value is the amount for which an asset could 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 those cases, their fair value is determined using measurement models that 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, option pricing models are used.

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

### Loans and receivables, and debt securities

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

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

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

### Interest-bearing securities

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

### Derivatives

NWB Bank uses the swap curve to measure derivatives, which represents the price level at which the Bank closes swaps. Credit risks in the swap market are largely mitigated by exchanging collateral.

### Overview of fair values of financial instruments

The following table sets out the estimated fair value of the financial assets and liabilities and other financial instruments not disclosed on the face of the balance sheet. A number of items are not included in the table as they do not meet the definition of a financial asset or liability. The total of the fair values disclosed below does not represent the underlying market value of NWB Bank and therefore should not be interpreted as such.





| | **Carrying amount 31-12-2011** | **Fair value 31-12-2011** | Carrying amount 31-12-2010 | Fair value 31-12-2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **275,579** | **275,579** | 13,362 | 13,362 |
| Banks | **4,330,684** | **4,330,684** | 2,362,616 | 2,362,616 |
| Loans and receivables | **54,718,463** | **55,877,671** | 46,967,501 | 47,941,291 |
| Interest-bearing securities | **1,486,370** | **1,515,386** | 2,470,701 | 2,507,755 |
| Derivative assets | **6,801,323** | **6,801,323** | 4,659,460 | 4,659,460 |
| Shares | **205** | **205** | 205 | 205 |
| **Liabilities** | | | | |
| Banks | **2,053,657** | **2,072,740** | 1,515,406 | 1,524,290 |
| Funds entrusted | **1,517,966** | **1,532,071** | 2,411,068 | 2,414,661 |
| Debt securities | **53,974,831** | **54,476,359** | 45,785,787 | 46,498,790 |
| Derivative liabilities | **8,838,774** | **8,838,774** | 5,703,615 | 5,703,615 |

## Determining fair values of financial instruments

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

| 31 December 2011: | Measurement based on market prices | Measurement based on models using data available in the market | Measurement based on models using data unavailable in the market |
|---|---|---|---|
| **Assets** | | | |
| Other listed interest-bearing securities | 568 | - | - |
| Derivative assets | - | 6,801 | - |
| **Liabilities** | | | |
| Derivative liabilities | - | 8,827 | - |

| 31 December 2010: | Measurement based on market prices | Measurement based on models using data available in the market | Measurement based on models using data unavailable in the market |
|---|---|---|---|
| **Assets** | | | |
| Other listed interest-bearing securities | 1,349 | - | - |
| Derivative assets | - | 4,659 | - |
| **Liabilities** | | | |
| Derivative liabilities | - | 5,704 | - |

## Financial derivatives

| Notional amounts of interest rate swaps | 2011 | 2010 |
|---|---|---|
| Breakdown according to remaining terms to maturity: | | |
| Up to one year | **13,040,191** | 13,756,591 |
| Between one and five years | **21,096,125** | 23,016,677 |
| More than five years | **38,546,752** | 35,681,181 |
| | **72,683,068** | 72,454,449 |

| Notional amounts of currency swaps | 2011 | 2010 |
|---|---|---|
| Breakdown according to remaining terms to maturity: | | |
| Up to one year | **11,557,421** | 8,056,323 |
| Between one and five years | **11,220,090** | 9,539,713 |
| More than five years | **7,095,128** | 7,325,191 |
| | **29,872,639** | 24,921,227 |





The notional amounts of the caps and floors total €1,096,846 (2010: €1,268,385) and those of the swaptions amount to €990,000 (2010: €402,500). These derivatives are included under the interest rate swaps in the previous table.

# 33 Risk management

### General

Risk management occupies a central position in the organisation. Risk awareness is an important element of the business culture and is embedded in the Bank's robust long-term strategy.
The organisation is designed to identify risks at an early stage, analyse them, set sensible limits and monitor those limits. Risk management is characterised by its effective response to changing circumstances and by providing proper parameters for the Bank's operations. It helps the Bank keep its strong financial position and very low cost structure.

### Risk governance

The Bank's strategy places strict requirements on risk management and on the set-up and maintenance of adequate internal controls. NWB Bank adopts an organisation-wide approach to risk management and its control. As an important element of its supervisory role, the Supervisory Board, and in particular the Audit and Risk Committee of the Board, evaluates the management of the risks associated with the banking operations. The Managing Board sets the risk management parameters. Within these parameters, the Asset and Liability Committee (ALCO) takes decisions on the risks of the Bank on a weekly basis. The Managing Board, treasury, public finance, risk management and back office are represented on the ALCO.

In conformity with the Dutch Banking Code, the Bank's risk appetite was updated under the Managing Board's responsibility and approved by the Supervisory Board. This documents the degree and areas of risk NWB Bank is prepared to accept in realising its strategic objectives. The risk appetite is reviewed annually and whenever significant events warrant such a review.

The rest of this section describes the internal risk management system for each relevant type of risk. The Bank lends virtually exclusively to public authorities and to companies and institutions related to the public sector. The counterparty risk arising from derivatives and money market transactions is limited as much as possible by applying a limit system, minimum creditworthiness requirements and collateral requirements. On balance, the credit risks are low and consequently, so are the interest margins.

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

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

Since the credit crisis, the Bank has been confronted with risks from changes in spreads compared with its benchmark, i.e. the swap interest rates. The higher degree of risk aversion and associated reduced liquidity on capital markets have resulted in the Bank having to raise funding for longer periods at the swap interest rate with a spread, whereas in the past it did so at swap rates. At the same time, the Bank can fund itself for the shorter term (up to twelve months) at rates that are lower than the swap interest rate. These spread developments lead to changes in the fair value of assets and liabilities and also have an impact on the interest rate result (interest received less interest paid).

The prudent policy, supplemented by a management system tailored to suit that policy, is the basis for the calculation, monitoring and management of the interest rate risks. The ALCO decides on the size of the risks within the parameters set. To manage risks, a duration analysis, a gap analysis according interest rate period, an Earnings at Risk measure and a scenario analysis are used. Outcomes from positions adopted are analysed using a profit forecast, interest margin analysis and performance analysis.
This management information is also important for the decision-making process within the ALCO.

The interest rate risk management framework was modified in some respects in connection with the conversion from IFRS-EU (applying the fair value option) to NL GAAP (applying hedge accounting).
The modifications are implemented in 2012.

### (Partial) duration analysis

The duration of the hedge portfolio is held within a bandwidth of -0.5 and +0.5 to minimise the impact which changes in the interest rate for this portfolio have on the Bank's results. The duration of this portfolio was 0.23 at 31 December 2011 and -0.16 at 31 December 2010. The average duration for 2011 was -0.02 (2010: 0.26). In addition, supplementary standards are used to improve the management of interest rate risk in this portfolio. They are based on partial duration, which is a measure of the fair value's sensitivity to non-parallel changes in the yield curve.

For the portfolio stated at amortised cost, the maximum permitted duration is 10. In practice, the duration of this portfolio is lower. As at 31 December 2011, the duration of this portfolio was 5.21 (31 December 2010: 3.88). The modified duration of the fair value of equity was 5.44 at 31 December 2011 (31 December 2010: 3.72). The average duration for 2011 was 4.45 (2010: 5.86).

### Short-term interest rate risk

In addition to the duration analysis, which provides an insight into the interest rate risk for the total term of the portfolio, NWB Bank applies the Earnings at Risk measure for the short term, with the aim of setting limits to the volatility of interest income during the next 365 days. This is a simulation measure, comparing the expected net interest income or loss for the next twelve months under various interest rate scenarios with the outcome of a baseline scenario.

### Gap analysis

An example of a gap analysis according to interest rate period is shown below. The table is based on internal reports. The ALCO uses this analysis to review the positions of the Bank on the yield curve.

| (in millions of euros) | Totaal | 3 months or less | 3 months - 1 year | 1 year - 5 years | More than 5 years |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans and receivables | **59,083** | 12,107 | 4,359 | 17,535 | 25,082 |
| Interest-bearing securities | **1,453** | 811 | 59 | 263 | 320 |
| Fixed-interest derivative assets | **38,251** | 4,915 | 6,836 | 12,081 | 14,419 |
| Variable-interest derivative assets | **43,342** | 38,388 | 4,953 | - | - |
| **Total assets** | **142,129** | 56,221 | 16,207 | 29,879 | 39,821 |
| **Liabilities** | | | | | |
| Banks, funds entrusted and debt securities | **23,650** | 6,200 | 1,308 | 9,307 | 6,835 |
| Fixed-interest derivative liabilities | **68,883** | 8,860 | 7,200 | 20,591 | 32,232 |
| Variable-interest derivative liabilities | **47,412** | 41,994 | 5,418 | - | - |
| **Total liabilities** | **139,945** | 57,054 | 13,926 | 29,898 | 39,067 |
| **Total assets less liabilities in 2011** | **2,184** | -832 | 2,281 | -19 | 753 |
| **Total assets less liabilities in 2010** | **1,766** | 2,823 | -1,414 | -703 | 1,060 |

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

## Scenario analysis

NWB Bank uses scenario analyses to gain an additional insight into the interest rate risk. A common scenario is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -100 basis points and +100 basis points. Based on the portfolio as at 31 December 2011, a parallel shift of +100 basis points results in a negative change in the fair value of equity of €88 million (2010: €65 million). In the event of a parallel shift of -100 basis points, the fair value of equity will increase by €101 million (2010: €73 million).

Based on yield curve scenarios, the sensitivity of the Bank to non-parallel changes in the yield curve is assessed and limited where necessary by the ALCO. In addition, scenario analyses are used to assess the sensitivity of the Bank to changes in the spread compared to the swap curve. To manage the spread risk, the Bank has restricted the difference in terms between borrowing and lending. This difference is expressed in the funding requirement at any point in the future. In 2008, a standard was set for the funding requirement, being a maximum of 25% of total assets at year-end 2008. To meet this standard, there is a transitional period through 2013. This standard controls the impact of an increasing spread not only on the fair value of borrowing and lending, but also on the interest rate result.

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



NWB Bank has a AAA credit rating. With this credit rating, under normal circumstances, NWB Bank should always easily be able to cover its current and future liquidity requirements in the market. In case of market stagnation, NWB Bank has sufficient means, amongst others in the form of liquid assets and collateral pledged with De Nederlandsche Bank to repay loans and finance new loans at all times. NWB Bank currently has an ample collateral position at De Nederlandsche Bank. Virtually the entire loans portfolio of NWB Bank is accepted as collateral at De Nederlandsche Bank. The collateral value of the portion of the portfolio pledged as collateral to De Nederlandsche Bank was €11.0 billion as at 31 December 2011 (€12.8 billion as at 31 December 2010). However, NWB Bank did not call on this position. NWB Bank increased its reliance on commercial paper. As at 31 December 2011, it had €9.5 billion outstanding in commercial paper (as at 31 December 2010: €6.1 billion). The ECP programme currently amounts to €15 billion.



The liquidity position is monitored daily. The aim of liquidity management is to ensure that there are sufficient funds available for the Bank to meet not only foreseen, but also unforeseen financial commitments. The Bank's management is informed daily by means of a liquidity gap analysis, containing differences between the cash flows receivable and payable. Three different standards are used to limit actual short-term liquidity deficits.

As noted above under 'scenario analysis', the Bank uses a maximum for the absolute liquidity deficit or borrowing requirement at any point in the future. In 2011, in order to be able to meet this standard within the transitional period set, the Bank raised €2.5 billion in long-term funding in excess of its long-term lending.

The balance sheet categories according to remaining contractual term, including all future interest cash flows and notional amounts of currency derivatives and before proposed profit appropriation, are presented below. The comparative figures also include the notional amounts of interest rate derivatives.

| 31 December 2011 (in millions of euros) | Total | 3 months or less | 3 months - 1 year | 1 year - 5 years | More than 5 years |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | **276** | 276 | - | - | - |
| Banks, loans and receivables | **68,800** | 6,865 | 3,527 | 20,524 | 37,884 |
| Interest-bearing securities | **1,576** | 10 | 59 | 577 | 930 |
| Intangible assets | **2** | - | - | - | 2 |
| Tangible fixed assets | **6** | - | - | - | 6 |
| Income tax | **-** | - | - | - | - |
| Other assets | **68** | - | 68 | - | - |
| Derivative assets | **14,386** | 558 | 421 | 2,067 | 11,340 |
| Prepayments and accrued income | **808** | - | 808 | - | - |
| **Total as at 31 December 2011** | **85,922** | 7,709 | 4,884 | 23,168 | 50,162 |
| **Total as at 31 December 2010** | **113,938** | 6,682 | 7,516 | 34,990 | 64,750 |
| **Equity and liabilities** | | | | | |
| Banks, funds entrusted and debt securities | **55,139** | 13,827 | 3,051 | 21,696 | 16,565 |
| Other liabilities | **61** | - | 61 | - | - |
| Derivative liabilities | **27,347** | 599 | 1,214 | 5,477 | 20,057 |
| Accruals and deferred income | **711** | - | 711 | - | - |
| Provisions | **3** | - | - | - | 3 |
| Income tax | **21** | - | 21 | - | - |
| Deferred tax liabilities | **2** | - | - | - | 2 |
| Equity | **1,188** | - | - | - | 1,188 |
| **Total as at 31 December 2011** | **84,472** | 14,426 | 5,058 | 27,173 | 37,815 |
| **Total as at 31 December 2010** | **112,814** | 15,348 | 11,360 | 37,407 | 48,699 |

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

The Bank's policy is geared to an extremely high-quality loans portfolio. NWB Bank's borrowers are mainly public authorities and institutions to which funds are lent under the guarantee of public authorities (including a limited securities portfolio). A relatively small proportion of loans is provided to government-controlled companies without government guarantee (Dutch utility companies). NWB Bank's Articles of Association prohibit lending to the private sector. To a very small extent, the Bank also lends to governments in other Western European countries, applying the same quality standards as for domestic lending. Finally, the Bank enters into agreements with banks for money market transactions and currency and interest rate swaps, which result in counterparty risk.

The Bank applies no credit limits for Dutch public authorities. All other loans are included in the credit assessment system of the Bank. If a credit limit is set for a counterparty, it is adjusted annually, or as often as necessary, in line with the latest developments. Given the almost risk-free nature of most of its customers, who are, moreover, exempt from solvency requirements, the Bank's credit risk is limited, which is also expressed in the robust BIS solvency ratio.

The weighted credit risk (including commitments for loans not yet taken out) to which NWB Bank is subject in accordance with De Nederlandsche Bank standards was as follows on the reporting date:



| (in millions of euros) | Nominal 2011 | Weighted 2011 | Nominal 2010 | Weighted 2010 |
|---|---|---|---|---|
| Central governments | **1,471** | **0** | 966 | 0 |
| Regional governments | **15,060** | **0** | 14,845 | 0 |
| Institutions with delegated government duties | **44,598** | **387** | 40,004 | 369 |
| Development banks | **63** | **0** | 78 | 0 |
| International organisations | **12** | **0** | 12 | 0 |
| Counterparty banks | **5,893** | **556** | 3,496 | 345 |
| Securities covered by collateral | **792** | **158** | 860 | 172 |
| Other | **11** | **11** | 19 | 18 |
| **Total** | **67,900** | **1,112** | 60,280 | 904 |

Most of NWB Bank's lending comes under the category of 0% weighting, which means that the credit risk is considered to be very limited. The portfolio of RMBS notes comes under the 20% weighting. The counterparty risks and money market lending come under the 20% and 50% weighting categories. The 100% weighting category includes loans to Dutch utility companies.

The table below provides an insight into the breakdown of loans granted by the Bank:

| **Loans portfolio, in nominal amounts** (in millions of euros) | **2011** | 2010 |
|---|---|---|
| Water boards | **4,751** | 4,673 |
| Municipal authorities | **6,838** | 6,797 |
| Other public authorities | **447** | 486 |
| Housing corporations | **28,936** | 26,829 |
| Healthcare institutions | **3,461** | 3,355 |
| Under government guarantee | **499** | 130 |
| Joint schemes | **222** | 417 |
| Government-controlled public limited liability companies | **248** | 234 |
| Other | **72** | 251 |
| | **45,474** | 43,172 |

The Bank has never suffered a loan loss. Owing to the very limited credit risk, no losses are expected. There is therefore no provision for uncollectibility. Both during the year and at the balance sheet date, arrears were low in monetary terms and of short duration.





To manage the interest rate and currency risks, NWB Bank uses derivatives. To limit the credit risks associated with these derivatives as much as possible, in principle, NWB Bank only enters into transactions with counterparties with a single A rating at a minimum and limits are set to minimise the total exposure from derivatives. The fair values of these derivatives can, depending on the agreements reached with counterparties, be hedged by collateral agreements (also known as CSAs). The Bank's policy is to conclude CSAs with all counterparties and to ensure that netting agreements apply. A number of the ISDA agreements concluded with counterparties have been amended. Portfolio management, monitoring and collateral management were stepped further up with respect to individual derivatives portfolios for all counterparties, as well as for the total derivates portfolio. For example, risk concentrations in the swap portfolio are assessed and managed and the portfolio's spread across rating categories and countries monitored. Of the total derivatives portfolio, over 25% of the contracts (measured by notional amounts) was entered into with financial institutions that have at least double A ratings.

The total fair value exposure from derivatives to financial counterparties at year-end 2011 was €2,538 million, of which €1,491 million was covered by collateral pledged to the Bank (2010: €1,569 million and €1,095 million). The total fair value exposure from derivatives from financial counterparties at year-end 2011 was €4,523 million, of which €4,330 million was covered by collateral provided by the Bank (2010: €2,613 million and €2,578 million).

The tables below break down counterparty risk by S&P rating category.

Positive replacement values of derivatives

| Rating | Nominal amount | Fair value | Collateral |
|---|---|---|---|
| AAA | 1,388 | 230 | 117 |
| AA | 4,882 | 524 | 51 |
| A | 39,711 | 1,784 | 1,323 |
| **Total** | 45,981 | 2,538 | 1,491 |

Negative replacement values of derivatives

| Rating | Nominal amount | Fair value | Collateral |
|---|---|---|---|
| AAA | 330 | 14 | - |
| AA | 20,861 | 799 | 805 |
| A | 35,384 | 3,711 | 3,525 |
| **Total** | 56,575 | 4,524 | 4,330 |





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

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

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

| | | | | **2011** | | | | 2010 |
|---|---|---|---|---|---|---|---|---|
| CCY | **Asset** | **Liability** | **Derivatives** | **Total** | Asset | Liability | Derivatives | Total |
| AUD | | **-1,366** | **1,366** | **-** | | -1,370 | 1,370 | - |
| CAD | | **-609** | **609** | **-** | | -607 | 607 | - |
| CHF | | **-5,443** | **5,443** | **-** | | -6,033 | 6,033 | - |
| GBP | | **-3,332** | **3,332** | **-** | | -2,017 | 2,017 | - |
| HKD | | **-2,311** | **2,311** | **-** | | -2,652 | 2,652 | - |
| JPY | | **-480,969** | **480,969** | **-** | | -530,079 | 530,079 | - |
| NOK | | **-500** | **500** | | | - | - | |
| NZD | | **-33** | **33** | **-** | | -34 | 34 | - |
| SEK | | **-865** | **865** | | | - | - | |
| USD | **160** | **-22,436** | **22,276** | **-** | 163 | -16,768 | 16,605 | - |
| ZAR | | **-125** | **125** | **-** | | -875 | 875 | - |

## OPERATIONAL RISK:
## “The possible impact on profit and capital of inadequate or ineffective internal processes and systems, inadequate or ineffective human actions or external events”

For NWB Bank, the main components of operational risk are losses incurred due to disruptions to the information, transaction processing and settlement systems, and ineffective procedures, particularly with respect to new services or products, as well as fraudulent and/or unauthorised actions on the part of employees or third parties.

### Procedures

As part of the management of operational risks, all important processes are described. The Internal Audit Department checks regularly whether the various procedures are being properly adhered to and whether they are still effective. The process descriptions are updated regularly.

### New products or services

In compliance with the Dutch Banking Code, the product approval process was tightened in 2010. The Managing Board is responsible for the effectiveness of the product approval process.
This process refers to the procedures the Bank follows in deciding whether it will produce or distribute a certain product, either at its own risk and expense or for the benefit of its clients, or whether it will enter a new market. This process involves a widely-scoped review in terms of transparency and risk management. No new product is marketed or distributed without careful consideration of risks by those responsible for risk management and meticulous checks against other relevant aspects. The Internal Audit Department, based on its annual risk assessment, each year verifies the process’ design, existence and effectiveness and reports its findings to the Managing Board and the Audit and Risk Committee.



### Incidents

Any incidents are reported to the compliance officer. If so requested by the Managing Board, the Internal Audit Department investigates the causes. The compliance officer proposes measures where necessary to prevent similar incidents from occurring in the future.

### Information systems

To prevent disruptions to the information systems, NWB Bank makes ongoing investments to improve its systems. Key words include security, integration, manageability and continuity.
A transparent infrastructure and ICT organisation and optimum security of ICT components are in place to limit as far as possible the impact of operational disruptions at NWB Bank. For this purpose, adequate service and maintenance contracts have been concluded for all relevant hardware and software, IT employees receive training and contracts have been entered into with external parties for back-up, recovery and contingency facilities. In emergencies, NWB Bank has access to an external location where it can continue all its core activities.

### Outsourcing

In 2006, NWB Bank outsourced its back office for customer funds transfers and the related ICT support operations. This means that certain services are performed outside the core of the business. The direct organisational management has therefore been reduced. At the same time, an additional control mechanism has been set up because NWB Bank continues to be responsible for funds transfers. This control mechanism focuses on a controlled and hence measurable and verifiable service.

## Integrity and compliance

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

In compliance with the Dutch Banking Code, the members of the Managing Board each signed the moral and ethical conduct declaration. The principles set out in this declaration apply to all employees. They were laid down in more detail in a code of conduct. This code forms part of the employment contracts, and it was posted on both the Intranet and the Bank's website.

NWB Bank transfers some of the compliance-based duties to the Legal Affairs Department and, where supervision of compliance with the insider regulations is concerned, to an external supervisor. The external supervisor reports to the Managing Board and the Supervisory Board, while the internal compliance officer reports directly to the Managing Board. These reporting lines confirm the value that the Bank attaches to the internal supervision and the work of both compliance officers. The supervision-based rules and codes of conduct are an important element of the compliance role.





## Legal risk

Like any other bank, NWB Bank is exposed to legal risk. NWB Bank operates on the principle of providing proper and sound financial services. The rapid succession of new and complex laws and regulation over the past few years is putting pressure on legal risk management. By keeping tabs on new trends in laws and regulations, and using standard contracts whenever possible, the Bank seeks to limit the legal risks for both NWB Bank and its customers. If needed, external advisers are consulted on legal issues and to review documents relating to these transactions.

## Capital management policy

In 2011, NWB Bank complied with all the external and internal capital requirements. It seeks to maintain the highest possible credit rating, which is that of the State of the Netherlands. Rating agencies Moody's and Standard & Poor's (S&P) confirmed the its AAA ratings in their annual assessments. While confirming the AAA rating, S&P placed the Bank on "negative outlook", in common with the State of the Netherlands. S&P qualifies NWB Bank, a public-sector bank, as a Government Related Entity ("GRE") with an exceptionally high likelihood of "extraordinary government support", which links the Bank's rating to that of the State of the Netherlands.

The main capital ratio is calculated in accordance with the standards set by the Financial Services Act (*Wet Financieel Toezicht*). These standards are based on the international solvency guidelines of the Basel Committee on Banking Supervision. The ratio compares the total capital base (net of proposed dividends) and the total of risk-weighted assets and off-balance sheet items. The minimum required ratio of total capital to risk-weighted assets is 8%.

With effect from 1 January 2008, the Bank switched from the Basel I to the Basel II supervisory regime. There are three pillars of the Basel II supervisory regime:

| | |
|---|---|
| **Pillar 1:** | the minimum capital requirements for each category of risk: credit risk, market risk, operational risk and concentration risk; |
| **Pillar 2:** | internal processes for risk management and setting internal capital requirements: Supervisory Review and Evaluation Process (SREP) and Internal Capital Adequacy Assessment Process (ICAAP), outlier criterion and stress tests; and |
| **Pillar 3:** | publication of financial headline figure requirements: market discipline and transparency. |

### 1) Pillar 1

The standardised method for credit risk uses external ratings linked to certain risk weightings. NWB Bank uses the credit ratings of Moody's and S&P. The market risk concerns risks in the trading portfolio and currency and commodity risks. NWB Bank does not keep a trading portfolio and can apply an add-on to the credit risk in line with the standardised method for any residual market risk. When calculating qualifying capital for operational risk, NWB Bank uses the basic indicator approach. Under this approach, 15% of the relevant indicator is taken as a benchmark for the operational risk. The relevant indicator is the three-year average of the total of the annual net interest income and the annual net non-interest income at the end of the financial year. For NWB Bank, the indicator is limited to the net interest income. The Large Positions rule limits the concentration risk of a bank. NWB Bank's large positions are connected to the swap portfolio. These positions are limited as much as possible by concluding CSAs and applying netting.





| Calculation of the Pillar 1 solvency index ratio as at the reporting date: | **2011** | 2010 |
|---|---|---|
| Equity excluding revaluation reserves and addition of profit to reserves | **1,185** | 1,110 |
| Revaluation reserves | **3** | 2 |
| **Total equity (A)** | **1,188** | 1,112 |
| Weighted credit risk | **1,112** | 904 |
| Weighted operational risk | **203** | 209 |
| **Total weighted risks (B)** | **1,315** | 1,113 |
| **Solvency index ratio (A/B)** | **90.3%** | 99.9% |

The drop in this ratio was caused mainly by an increase in the potential credit risk in the swap portfolio because of the growth in that portfolio and the worsened credit risk profile of counterparties.

### 2) Pillar 2

The SREP is an evaluation by De Nederlandsche Bank, acting in its capacity of supervisory authority, in which it attempts to establish that a bank has its solvency management, capital adequacy and ICAAP in order. The outlier criterion sets a maximum interest rate risk that a bank may run on its equity. Stress tests can be applied under pillar 1 and pillar 2. Using sensitivity analyses or scenarios, banks can gain a better understanding of their risk profile. A best practice for stress tests does not exist yet, which means that each bank will need to develop its own practice. NWB Bank uses stress testing in practice and is lending more structure to the stress testing framework.

### 3) Pillar 3

Market discipline and transparency in the publication of solvency risks are important elements of the Basel rules for Pillar 3. Central to these publications is information on the solvency and the risk profile of a bank, providing disclosures on such matters as its capital structure, capital adequacy, risk management and risk measurement. Pillar 3 disclosure requirements are based on Pillar 1 requirements. This means that they are more prescriptive than those under IFRS 7, which has a "through the eyes of management" approach to risk disclosures. Conversely, Pillar 3 has less detailed presentation requirements than IFRS. NWB Bank has documented its disclosure policies and published them on its website. The objective of NWB Bank's disclosure policies is to practice maximum transparency in a practicable manner.



Developments relating to the introduction of the Basel III supervisory regime are discussed in the Report of the Managing Board.



## 34 Information on 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, as well as the contribution to Stichting NWB Fonds, please refer to Notes 4 and 5.

As at 31 December 2011, an amount of €5,171 million in loans had been granted to shareholders on market terms (2010: €5,031 million).

## 35 Events after the balance sheet date

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

## 36 Conversion from IFRS-EU to NL GAAP

The tables below present the effect of the conversion from IFRS-EU to NL GAAP on equity at 1 January 2010 and 31 December 2010, as well as on net profit for 2010.

(in millions of euros)

| **Reconciliation between equity under IFRS-EU and NL GAAP at 1 January 2010** | |
|---|---|
| Equity under IFRS-EU at 1 January 2010 | **1,048** |
| Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio | **50** |
| Effect on deferred tax | **-13** |
| **Equity under NL GAAP at 1 January 2010** | **1,085** |

| **Reconciliation between equity under IFRS-EU and NL GAAP at 31 December 2010** | |
|---|---|
| Equity under IFRS-EU at 31 December 2010 | **1,068** |
| Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio | **90** |
| Effect on deferred tax | **-23** |
| **Equity under NL GAAP at 31 December 2010** | **1,135** |



| **Reconciliation between net profit for 2010 under IFRS-EU and NL GAAP** | |
|---|---|
| Net profit under IFRS-EU for 2010 | **38** |
| Effect of ceasing to apply the fair value option under IFRS-EU and applying hedge accounting under NL GAAP on the fair value portfolio | **40** |
| Effect of recognising a negative interest-bearing securities revaluation reserve | **30** |
| Effect on deferred tax | **-17** |
| **Net profit under NL GAAP for 2010** | **91** |



### Notes to the reconciliation of equity and net profit under IFRS-EU and NL GAAP

Under IFRS-EU, the fair value option was used, meaning that what was termed the fair value portfolio was stated at fair value. Under NL GAAP, it is stated at amortised cost, with the exception of the other listed interest-bearing securities, which continue to be stated at fair value. Under NL GAAP, this portfolio is subject to fair value hedge accounting, with the exception of interest-bearing securities held to maturity. The instruments in the fair value portfolio that are stated at amortised cost under NL GAAP have been adjusted by eliminating the (cumulative) changes in market value. Where fair value hedge accounting is applied to such instruments, a value adjustment is made to the gain or loss that is attributed to the hedged interest rate risk under hedge accounting.

This resulted in measurement changes of €50 million in the balance sheet at 1 January 2010 and €90 million in the balance sheet at 31 December 2010. To a significant extent, these changes arise because liquidity and credit risk spreads are no longer applied. The effects these measurement changes have on deferred tax and the income tax expense are €13 million and €23 million, respectively. Their effect on net profit for 2010 is €53 million.

Furthermore, the conversion to NL GAAP has resulted in reclassification of the interest-bearing securities previously reported under available-for-sale financial assets and financial assets stated at fair value through profit or loss under IFRS-EU. Unlisted interest-bearing securities and interest-bearing securities held to maturity are stated at amortised cost under NL GAAP. Fair value hedge accounting is applied to the interest-bearing securities not held to maturity. In contrast to IFRS-EU, NL GAAP does not allow a negative revaluation reserve to be recognised, which is why impairment below cost is immediately reflected in profit or loss. Conversely, a subsequent recovery of these interest-bearing securities' fair value to cost is similarly recognised in profit or loss. The impact on net profit for 2010 is €23 million.

### Changed balance sheet and statement of income formats

The adoption of NL GAAP has led to changes to the formats of the balance sheet and statement of income, given that their formats are prescribed under NL GAAP. The comparative figures as at 31 December 2010 have been restated accordingly.

The items financial assets stated at fair value through profit or loss, available-for-sale financial assets and financial liabilities stated at fair value through profit or loss have been removed from the balance sheet. Where needed, other items have been renamed.

The instruments previously reported under financial assets stated at fair value through profit or loss have been reclassified, according to their nature, to loans and receivables, interest-bearing securities, and prepayments and accrued income. The instruments previously reported under available-for-sale financial assets have been reclassified to interest-bearing securities, while the instruments previously reported under financial liabilities stated at fair value through profit or loss have been reclassified, according to their nature, to banks, funds entrusted, debt securities, and accruals and deferred income.

The item changes in fair value portfolio, as reported under IFRS-EU, has been renamed results from financial transactions, in accordance with NL GAAP.

## 37 Members of the Managing Board and Supervisory Board

**Managing Board**
R.A. Walkier
L.M.T. van Velden
F.J. van der Vliet

**Supervisory Board**
Professor R.G.C. van den Brink
E.H. baron van Tuyll van Serooskerken
Professor A.F.P. Bakker
E.F. Bos
P.C.G. Glas
V.I. Goedvolk
Professor J.J.M. Jansen
B.J.M. baron van Voorst tot Voorst

The Hague, the Netherlands
8 March 2012

# Other information

# Independent auditor's report

## To the General Meeting of Shareholders of Nederlandse Waterschapsbank N.V.

### Report on the financial statements

We have audited the accompanying financial statements 2011 of Nederlandse Waterschapsbank N.V., The Hague, which comprise the balance sheet as at 31 December 2011, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's responsibility

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

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.





An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Nederlandse Waterschapsbank N.V. as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

## Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Managing Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Report of the Managing Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 8 March 2012
KPMG ACCOUNTANTS N.V.
M. Frikkee RA

# Articles of Association provisions governing profit appropriation

**As from 2005, 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 equity and liabilities of the company exceed the amount of that part of its issued capital that is paid up and called up plus the reserves which must be kept by law or the Articles of Association.

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

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

4 To the extent that the company has profits, the Managing Board, subject to the approval of the Supervisory Board, may with due regard for the provisions of paragraphs 1 and 2 of this article resolve to distribute an interim dividend on the basis of an interim statement of the company's financial position as provided for in Section 105, subsection 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 may decide to distribute to shareholders a dividend or interim dividend other than in cash chargeable to the part of the profit to which they are entitled.

# Proposed profit appropriation

| (in thousands of euros) | | 2011 | | 2010 |
|---|---|---|---|---|
| Profit for the year | | **74,715** | | 38,389 |
| The proposed profit appropriation is as follows: | | | | |
| Cash dividends on A shares | 0% | - | 337% | 19,569 |
| Cash dividends on B shares | 0% | - | 337% | 3,431 |
| | | - | | 23,000 |
| Added to the reserves on the approval of the Supervisory Board | | **74,715** | | 15,389 |
| | | **74,715** | | 38,389 |

The proposed profit appropriation for 2010 is presented in accordance with the IFRS financial statements for 2010.

# List of shareholders at 1 January 2012

| | Number of A shares of €115 | Number of B shares of €460 |
|---|---|---|
| Water Board Aa en Maas | 627 | 301 |
| Water Board Amstel, Gooi en Vecht | 281 | 60 |
| Water Board Brabantse Delta | 2,016 | 483 |
| Water Board Delfland | 755 | 60 |
| Water Board De Dommel | 533 | 360 |
| Water Board Fryslân | 3,309 | 100 |
| Water Board Groot Salland | 1,588 | 195 |
| Water Board Hollandse Delta | 1,893 | 143 |
| Water Board Hollands Noorderkwartier | 4,399 | 204 |
| Water Board Hunze en Aa's | 1,915 | 175 |
| Water Board Noorderzijlvest | 1,107 | 170 |
| Water Board Peel en Maasvallei | 1,866 | 153 |
| Province of Drenthe | 15 | 25 |
| Province of Friesland | 24 | 25 |
| Province of Gelderland | 44 | 50 |
| Province of Limburg | 11 | 20 |
| Province of NoordBrabant | 33 | 40 |
| Province of NoordHolland | 43 | 60 |
| Province of Utrecht | 43 | 60 |
| Province of Zeeland | 15 | 20 |
| Province of ZuidHolland | 33 | 40 |
| Water Board Reest en Wieden | 648 | 37 |
| Water Board Regge en Dinkel | 655 | 300 |
| Water Board Rivierenland | 3,968 | 437 |
| Water Board Roer en Overmaas | 535 | 146 |
| Water Board Rijn en IJssel | 5,666 | 345 |
| Water Board Rijnland | 4,858 | 289 |
| Water Board Scheldestromen | 4,380 | 166 |
| Water Board Schieland en de Krimpenerwaard | 610 | 430 |
| State of the Netherlands | 1,208 | 3,333 |
| Water Board De Stichtse Rijnlanden | 224 | 47 |
| Water Board Vallei en Eem | 371 | 24 |
| Water Board Velt en Vecht | 6,503 | 123 |
| Water Board Veluwe | 260 | 64 |
| Water Board Zuiderzeeland | 42 | 26 |
| | 50,478 | 8,511 |

# Overview of compliance with the principles of the Dutch Banking Code

PRINCIPLE COMPLIANCE

## 2. Supervisory board

**2.1 Composition and expertise**

2.1.1 Supervisory Board Regulations[1], Article 2.7

2.1.2 Articles of Association[2], Article 17, paragraphs 1 and 8: The company has a Supervisory Board which shall consist of at least seven and at most eleven members. The number of Supervisory Board members shall be determined by the shareholders in general meeting. During the Annual General Meeting of Shareholders of 28 April 2011, the shareholders resolved, at the Supervisory Board's proposal, to increase the Board's membership from seven to eight, because the need was felt to extend financial expertise among the Board's members. Reference is also made to the Supervisory Board Profile[3], Articles 2.3 and 2.4.

2.1.3 Supervisory Board Profile, Article 1.5, and Supervisory Board Regulations, Article 1.1.

2.1.4 Supervisory Board Profile, Article 1.6



2.1.5 Supervisory Board Profile, Article 2.6

2.1.6 Supervisory Board Regulations, Article 1.9

2.1.7 Supervisory Board Regulations, Article 13.1

2.1.8 Supervisory Board Regulations, Article 3.2, paragraph a.

2.1.9 Supervisory Board Regulations, Article 6.3

2.1.10 Supervisory Board Regulations, Articles 6.3 and 6.4

**2.2 Tasks and working methods**

2.2.1 Supervisory Board Regulations, Article 1.8

2.2.2 ARC Regulations[4], Article 2.2

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## 3. Executive board (Managing Board)

**3.1 Composition and expertise**

3.1.1 Managing Board Regulations[5], Article 2.3

3.1.2 Managing Board Regulations, Article 2.4

3.1.3 Managing Board Regulations, Article 2.5

3.1.4 Managing Board Regulations, Article 2.6, and Supervisory Board Regulations, Article 1.7, paragraph g.

1 Rules of the Supervisory Board of NWB Bank, March 2010.
2 Articles of Association of NWB Bank, June 2005.
3 Profile for the appointment of members of the Supervisory Board of NWB Bank, March 2010.
4 Rules of the Audit and Risk Committee of NWB Bank, March 2010.
5 Rules of the Managing Board of NWB Bank, March 2010.

3.1.5 Managing Board Regulations, Article 2.7
3.1.6 Managing Board Regulations, Article 1.2
3.1.7 Managing Board Regulations, Article 2.8
3.1.8 Managing Board Regulations, Article 2.9

**3.2 Tasks and working methods**

3.2.1 Managing Board Regulations, Article 1.2
3.2.2 Managing Board Regulations, Article 1.3
3.2.3 Managing Board Regulations, Article 1.4
3.2.4 Managing Board Regulations, Article 1.4. NWB Bank applies a code of conduct to all of the Bank's employees. It has been brought into line with the principles of the moral and ethical conduct declaration.



## 4. Risk management

**4.1** The Bank's documentation on risk appetite is drafted under the Managing Board's responsibility and reviewed annually and whenever significant events warrant such a review. At the proposal of the Managing Board, it is submitted to the Supervisory Board for its approval at least once a year, as well as after material changes are made (Managing Board Regulations, Articles 1.6 and 2.8).

**4.2** Supervisory Board Regulations, Article 1.8: In discharging itself of its supervisory duties, the Supervisory Board lends particular consideration to the Bank's risk management. Each discussion on risk management is prepared by the Audit and Risk Committee.

**4.3** Supervisory Board Regulations, Article 6.2, and Managing Board Regulations, Article 1.1

**4.4** Managing Board Regulations, Article 1.8: NWB Bank has a risk management and control system, which is tailored to its organisation. At a minimum, it encompasses risk analyses, risk standards and frameworks for the Bank's operational and financial objectives, a code of conduct, manuals governing the financial reporting structure and the related reporting procedures, and a monitoring and reporting system.

**4.5** Managing Board Regulations, Article 1.10. Furthermore, the Product Approval Process provides that the Internal Audit Department assesses the process' effectiveness and reports its findings to the Managing Board and the Audit and Risk Committee.

## 5. Audit

**5.1** Managing Board Regulations, Article 1.5

**5.2** The Bank's Audit Charter provides that the Internal Audit Department (IAD) is directly accountable to the Chairman of the Managing Board. The internal audit function is not subject to line management and is unrelated to the internal controls integrated into the various components of the separate business processes. The IAD reports to the Managing Board. The Head of the IAD autonomously provides the Audit and Risk Committee with copies of the reports on audits performed that are sent to the Managing Board and may contact the Chairman and/or members of the Audit and Risk Committee directly. The Head of the IAD attends the meetings of the Audit and Risk Committee. In addition, the Audit and Risk Committee holds at least one meeting each year with the internal auditor without the Managing Board being present (ARC Regulations, Article 1.3).

**5.3** The IAD's audit and verification duties concern process control and the information that is to be reported (Audit Charter).

**5.4** ARC Regulations, Article 1.5. In practice, the Head of the IAD and the external auditor attend all Audit and Risk Committee meetings. The IAD's annual plan and the external auditor's audit plan are submitted to the Audit and Risk Committee for its approval.

**5.5** This is included in the external auditor's annual audit plan and audit report.

**5.6** Twice yearly, tripartite meetings are held between NWB Bank (including the IAD), the external auditor and the Dutch Central Bank. One meeting covers the outcome of the risk analysis and the design of the external audit, while the other addresses the external audit's findings.

## 6. Remuneration policy

### 6.1 Basis

6.1.1 Managing Board Regulations, Article 3.1, and Supervisory Board Regulations, Article 7.1

### 6.2 Governance

6.2.1 Supervisory Board Regulations, Article 7.2

6.2.2 Supervisory Board Regulations, Article 7.3

### 6.3 Remuneration of executive board members

6.3.1 Managing Board Regulations, Article 4.1

6.3.2 This is included in the employment contracts of the members of the Managing Board.

6.3.3 Remuneration policy, Paragraph 1.3

6.3.4 The Bank does not operate any employee stock option or stock ownership plans.

### 6.4 Variable remuneration

6.4.1 Managing Board Regulations, Article 3.1

6.4.2 Managing Board Regulations, Article 3.1

6.4.3 Employees' variable remuneration comprises a profit-sharing payment of up to 7.5% and a performance payment of up to 7%. Under the performance scheme, a percentage between 0% and 7% is established in reward of special achievements made in the relevant year. In setting the percentage, achievement of individual targets pre-set annually is considered. The Bank sets great store by non-financial performance. Accordingly, it has chosen to depart in some measure from Principle 6.4.3 of the Banking Code, which stipulates that pre-determined and assessable performance criteria be set, as it wishes to base its assessment also on performance that is not pre-determined but still exceptional.

6.4.4 Managing Board Regulations, Article 3.2

6.4.5 Remuneration policy, Paragraph 1.3

6.4.6 Remuneration policy, Paragraph 1.3

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