NWB BANK

ANNUAL REPORT 2014

NEDERLANDSE WATERSCHAPSBANK N.V.

Contents

Headline figures

(amounts in millions of euros)	**2014**	2013	2012	2011	2010
Balance sheet					
Long-term loans and advances (nominal value)	**49,421**	49,595	48,142	45,474	43,172
Equity[1]	**1,303**	1,256	1,226	1,188	1,135
Total assets	**88,249**	73,006	76,084	67,696	57,358
Risk-weighted assets	**1,152**	1,039	933	1,112	904
Results					
Net interest income	**117**	95	107	75	104
Results from financial transactions	**-16**	-14	-24	38	30
Operating income	**101**	81	83	113	134
Operating expenses[2]	**16**	16	14	15	11
Income tax expense	**21**	16	17	23	30
Bank tax	**15**	15	12	-	-
Net profit	**49**	34	40	75	91
Dividend					
Dividend distribution	**0.0**	0.0	0.0	0.0	23.0
Dividend per share in euros	**0.0**	0.0	0.0	0.0	390
Ratios (%)					
Tier 1 ratio[1]	**73.0**[3][4]	100.9	111.2	90.3	99.9
Operating expenses/interest ratio	**13.8**	16.9	13.1[3]	20.0	10.6
Dividend pay-out ratio	**0.0**	0.0	0.0	0.0	25.3
Leverage ratio[5]	**1.8**[6]	1.9[7]	-	-	-
Liquidity Coverage Ratio	**144**	110	-	-	-
Net Stable Funding Ratio	**107**	107	-	-	-

1) Including profit for the year.

2) Excluding bank tax.

3) With the Capital Requirements Regulation and Directive (CRR/CRD IV) having taken effect on 1 January 2014, the Tier 1 ratio dropped by approximately a quarter, due to the introduction of the Credit Valuation Adjustment (CVA) capital charge.

4) 70.3 excluding profit for the year.

5) Including profit for the year and based on the new definition proposed by the Basel Committee in January 2014.

6) 1.6% based on the current definition.

7) 1.7% based on the current definition.

Organisation

The Managing Board

Name	Ron Walkier (1953)
Year of first appointment	1993, Chairman since 2008
Term of office ends in	2016
Principal position	Chairman of the Managing Board
Portfolio	Strategy, communications, HRM, legal & compliance and the Internal Audit Department

Name	Lidwin van Velden (1964)
Year of first appointment	2010
Term of office ends in	2018
Principal position	Member of the Managing Board
Relevant other positions	Member of the Supervisory Committee of the University of Amsterdam Adviser to the Supervisory Committee of the Amsterdam University of Applied Sciences Member of the Audit Committee of the Dutch Ministry of Education, Culture and Science
Portfolio	Finance & control, risk management, back office, ICT, security management and tax

Name	Frenk van der Vliet (1967)
Year of first appointment	2012
Term of office ends in	2016
Principal position	Member of the Managing Board
Portfolio	Lending, funding, asset & liability management and facility management

Management team

Ron Walkier, Chairman
Lidwin van Velden
Frenk van der Vliet
Marian Bauman, Human Resources Management
Peter Bax, Back Office
Ard van Eijl, Risk Management
Reinout Hoogendoorn, Internal Audit Department
Leon Knoester, Public Finance
Marc-Jan Kroes, Finance & Control
Tom Meuwissen, Treasury
Heleen van Rooijen, Legal & Compliance
Michel Vaessen, ICT

The Supervisory Board

Name	Age Bakker (64)[1)2)]
Position	Chairman
Year of first appointment	2012
Term of office ends in	2016
Last position held	Executive Director of the International Monetary Fund (IMF)
Relevant other positions	Chairman of the Board of financial supervision (Cft) Curaçao and Sint Maarten Chairman of the Board of financial supervision (Cft) Bonaire, Sint Eustatius and Saba Member of the Board of Pensioenfonds Zorg en Welzijn (the Dutch pension fund for the care and welfare sector) Chairman of the Investments Committee of Pensioenfonds Horeca & Catering (the Dutch pension fund for the hospitality and catering industry) Member of the Audit Committee of the Dutch Ministry of Foreign Affairs Member of the SME Financing Committee of the Dutch Ministry of Economic Affairs

Name	Else Bos (55)[1)]
Year of first appointment	2008
Term of office ends in	2016
Principal position	Chief Executive Officer of PGGM N.V.
Relevant other positions	Member of the Supervisory Committee of Isala Klinieken Supervisory Director of Stichting Waarborgfonds Eigen Woningen Member of the Board of Sustainalytics B.V. Member of the Board of United Nations Principles on Responsible Investments (UN-PRI) Member of the Supervisory Committee of Dutch National Opera & Ballet Dep. Chair of the Supervisory Board of NHG/WEW Member of the Dutch Corporate Governance Code Monitoring Committee

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

NWB) BANK

Name	Peter Glas (59)
Year of first appointment	2011
Term of office ends in	2015
Principal position	Water Reeve of De Dommel Water Board
Relevant other positions	Chair of the Dutch Association of Regional Water Authorities Board member of the Noord-Brabant Association of Water Boards Member of the Recommendations Committee of the Association for Water Management and Land Use Chair of the OECD Water Governance Initiative

Name	Maurice Oostendorp (58)[3]
Year of first appointment	2012 (EGM)
Term of office ends in	2017
Principal position	Member of the Executive Board of SNS Reaal
Relevant other positions	Supervisory Director and Chair of AC of Propertize B.V. Member of the Advisory Council of Women in Financial Services (WIFS)

3) Chairman of the Audit and Risk Committee

Name	Albertine van Vliet-Kuiper (63)[2]
Year of first appointment	2012 (EGM)
Term of office ends in	2017
Principal position	Independent Chair of the "Samen werkt beter" Administrative Consultative Committee in the Province of Overijssel
Relevant other positions	Chair of the Supervisory Board of Omnia Wonen
	Deputy Chair of and Secretary to the Board of Nationaal Restauratiefonds
	Member of the Aedes Code Committee
	Member of the Dutch Council for Public Administration
	Chair of the Supervisory Committee of Victas centre for the care and treatment of drug addicts

Name	Berend-Jan baron van Voorst tot Voorst (71)[4]
Year of first appointment	2009
Term of office ends in	2017
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.

2) Member of the Remuneration and Appointment Committee
4) Chairman of the Remuneration and Appointment Committee

Report of the Supervisory Board to the shareholders

The Supervisory and Managing Boards are pleased to present the Annual Report 2014 of NWB Bank. It contains the financial statements of the Bank, signed by the Managing and Supervisory Boards, and audited and approved by KPMG Accountants N.V.

The Supervisory and Managing Boards propose that you adopt the 2014 financial statements as submitted. The Supervisory and Managing Boards furthermore propose that you discharge the members of the Managing Board for their conduct of affairs and the members of the Supervisory Board for their oversight exercised in the year under review.

From the Chairman of the Supervisory Board

NWB Bank was able to shore up its position as a private bank for the semi-public sector in a highly competitive environment characterised by exceptionally low interest rates. Central to this, for both the Supervisory and Managing Boards, is that the Bank contributes to the real economy by co-financing the public infrastructure in the Netherlands at low financial costs. In that way, the Bank contributes to a better public organisation of the Netherlands - a precondition for sustainable growth recovery in the Netherlands.

The Bank intends to contribute to a sustainably healthy and stable financial sector. The intensified requirements ensuing from rules and regulations set by supervisory authorities - currently from Frankfurt and Amsterdam for NWB Bank - help design a solid risk management system, as well as being conducive to reaching a state of adequate preparation for unanticipated market issues.
The Supervisory Board spent a great deal of time discussing adequate capital and liquidity planning, and establishing the triggers that require recovery actions in poor circumstances.

Total assets rose sharply, due to interest rates being low in 2014. In order to satisfy the 3% leverage ratio by 2018, the Bank has started raising subordinated (hybrid) loans in 2015. As the Bank also adds its annual net profits to the reserves to the maximum extent possible, it is fully confident that it will continue to satisfy the Basel capital requirements.

Anticipating the needs of its customers in the public domain, the Bank expanded its field of operations in the semi-public sector, such as by co-financing government-backed mortgage portfolios and export credits, and by participating in public-private projects, while maintaining a healthy risk profile.

The Supervisory Board closely follows NWB Bank's strategy of remaining a key player in the public domain by proactively anticipating new trends and developments. For that purpose, intensive liaisons with shareholders are imperative, so as to keep all parties and interests aligned. Profitability is not key in this process, although shareholders must be able to count on adequate returns. The Bank aims to resume dividend payments as soon as the standard leverage ratio has been satisfied.

A year ago, Dolf van den Brink stood down as Chairman of NWB Bank's Supervisory Board, having served on that Board for twelve years. We are shocked by his premature death. With his unique personality, he made a huge contribution to keeping NWB Bank on course. In part thanks to his efforts and commitment, we are looking at the Bank's future with confidence.

Age Bakker

Oversight

Report on the Supervisory Board's oversight duties

The Supervisory Board met on eight occasions in the year under review, seven of which were regular meetings, while one was a strategy session. Topics regularly discussed during the meetings last year were developments in the financial markets, developments in the balance sheet and the financial results, lending, the Bank's funding, risk management, the external auditor's report, strategic policy, the dividend and reserve policy, the General Meeting of Shareholders, the Annual Report and the Half-Year Report, the Policy Memorandum, the budget, corporate governance, compliance with the Insider Regulation, lifelong learning, the Board's self-assessment, the rotation schedule, the social policy, the reports of the Internal Audit Department (IAD), and the reports of the Audit and Risk Committee and the Remuneration and Appointment Committee.

Special attention was devoted to the topics below.

ECB supervision

During the past year, the European banks placed under the direct supervision of the European Central Bank (ECB), including NWB Bank, were subject to Comprehensive Assessments (CAs), which centred on investigations into asset quality (Asset Quality Reviews, AQRs) and into the Banks' stress levels in unfavourable economic scenarios (in "stress tests"). The ECB and the European Banking Authority published the results of these CAs on 26 October 2014. For NWB Bank, the CA - where the "adverse stress scenario" was concerned - resulted in a Common Equity Tier 1 ratio of 54%, which amply exceeds the minimum of 5.5% below which banks must submit plans to shore up their capital positions. The Supervisory Board regards this outcome as confirmation of the financially solid status and high credit ratings of NWB Bank as a bank of and for the Dutch public sector.

Risk management

In 2014, as in previous years, the Bank assessed its capital adequacy and solvency management, in what is referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The discussion of such ICAAP dovetailed with the debate conducted by the Board about the recovery plan drawn up at the supervisory authority's request. As of 1 January 2015, all banks must have recovery plans, helping them prepare for and achieve recovery should serious stress situations occur. A recovery plan lays down triggers that lead to action and to escalation, if needed, to - establishing - a crisis management team. The Chairman of the Supervisory Board is a member of such crisis management team. The Dutch Central Bank (De Nederlandsche Bank, DNB) approved the Bank's recovery plan.

Capital

In 2014, the Bank considered the options for strengthening its capital base by potentially issuing hybrid capital instruments, as well as concluding an agreement in principle with four provincial authorities for a total investment of €200 million in hybrid capital of the Bank. These processes form part of the Bank's approach to satisfying the 3% leverage ratio by the prescribed date of 1 January 2018. Furthermore, the ratio can, in part, be achieved by retaining profits. Finally, the Board's meetings addressed the implications of the Minimum Requirement for own funds and Eligible Liabilities (MREL) under the Bank Recovery and Resolution Directive.

Remuneration and policy governing remuneration of the Managing Directors

The Supervisory Board adopted the long-term variable remuneration for 2010 of the Managing Directors, the variable remuneration for 2013 of the Managing Directors and their performance contracts for 2014. In the spring of 2015, meetings with representatives of shareholders of NWB Bank were held, during which the remuneration policy with respect to the Managing Directors was discussed. Preparations by the Supervisory Board for those meetings already started in 2014. The talks aim to keep the remuneration policy balanced in terms of adopting moderate remuneration commensurate with the public interest the Bank serves, on the one hand, and taking account, as suits a private institution, of remuneration paid at comparable institutions, on the other. Shareholders are expected to adopt a new remuneration policy for the Managing Directors during 2015.

HRM

The modification of the pension plan for the Managing Directors and the employees, and the renewal of the pension contract were addressed at regular intervals. The Board aims to maintain a sound pension provision that takes account of pension trends in society and that reduces demands on assets. Effective 2015, a new harmonised pension plan that is in line with the market and that complies with amended laws and regulations applies to the Bank's Managing Directors and employees.

ECG

In 2014, the Product Approval Process (PAP) was followed in relation to the Export Credit Guarantee (ECG) facilitated by the Dutch government. With Dutch government backing (administered by Atradius Dutch State Business (ADSB), NWB Bank can refinance export credits using the refinancing arrangement. This product suits the Bank's objectives of contributing to the Dutch government by fostering Dutch exports on the basis of inexpensive financing.

Future-Oriented Banking

The Supervisory Board sets great store by proactively anticipating the reinforcement of NWB Bank's role in society. In this connection, "Future-Oriented Banking" *(Toekomstgericht Bankieren)* was discussed in the Board's meetings. Future-Oriented Banking comprises the Social Statute *(Maatschappelijk Statuut)*, the Dutch Banking Code *(Code Banken)* and the Code of Conduct *(Gedragsregels)* related to the banker's oath *(bankierseed)*. The statutory obligation for executive and non-executive directors of financial institutions to take the banker's oath has applied since early 2013. NWB Bank's Managing and Supervisory Directors all took the oath or made the promise in 2013. In 2015, they will sign a declaration regarding disciplinary rules within the framework of the new Code of Conduct. In addition, preparations were made for the implementation of the banker's oath for employees. Furthermore, the Code of Conduct will be revised. In early 2015, the profile and the Regulations for the Supervisory Board, the Audit and Risk Committee and the Remuneration and Appointment Committee were revised accordingly.

Furthermore, the following topics were addressed.

Public-Private Partnership (PPP): Specifically, the PPP risk framework was discussed.
Compliance: Taking the banker's oath, establishing that all insiders (Supervisory Directors, Managing Directors and employees) had complied with the 2013 Insider Regulation. Further, the Compliance Charter and the Audit Charter were approved.
External auditor: In view of the mandatory audit firm rotation with effect from 2016 at the latest, the proposals of several audit firms were assessed and the decision was made to nominate Ernst & Young, during the General Meeting of Shareholders to be held in April 2015, for appointment as the Bank's auditor with effect from the 2016 financial year.
Funding and lending: Update of the 2014 Debt Issuance Programme and the 2014 funding decision.
Treasury: Approval of Treasury's revised overview of powers.

Achievement of business targets

The Managing Board's Policy Memorandum is discussed each year. The policy targets for 2014 were assessed and those for 2015 adopted. The achievement of the Bank's business targets is a factor in the annual assessments of the Managing Directors' performance. Their targets for 2014 were largely achieved.

Strategy and risks

A separate session, about which the Chairman of the Supervisory Board reports above, was held in 2014 in which the Managing and Supervisory Directors homed in solely on NWB Bank's strategy. The Audit and Risk Committee monitors the Bank's risks very closely, and its Chairman reports directly to the full Board on the basis of minutes of the Committee's meetings. A description of the activities of the Audit and Risk Committee is provided below.

Design and effectiveness of the Bank's internal risk controls

The design and effectiveness of the Bank's internal risk management and control systems were addressed in a meeting of the Audit and Risk Committee. In common with the Managing Board, the Supervisory Board is of the view that these internal risk management and control systems were effective. This provides reasonable assurance that NWB Bank's financial reports contain no material misstatements.

Financial reporting

Each quarterly financial report is discussed at length, first by the Audit and Risk Committee and subsequently by the full Board. The Managing Board includes a description of highlights in these reports, setting out its views of the Bank's financial developments.

Compliance with laws and regulations

The Supervisory Board oversees NWB Bank's compliance with laws and regulations, based on the knowledge and experience of its individual members and adequate information provided by relevant departments of NWB Bank. Furthermore, the Bank has a compliance function in the Legal & Compliance Department, which is designed to promote and oversee, or arrange for oversight of, compliance with external laws and regulations and with internal procedures and code of conduct. The IAD also performs various compliance audits to establish whether the Bank complies with relevant laws and regulations and with its own rules and standards.

New laws and regulations that are of relevance to NWB Bank include:

- The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR).
- The Dutch Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014 *(Regeling beheerst beloningsbeleid Wft 2014)*, which implements a number of the CRD IV's articles on remuneration policies.
- The Single Resolution Mechanism (SRM), which entered into force on 19 August 2014. The dates on which provisions from the Regulation start applying are all in the 1 November 2014 to 1 January 2016 period.
- The Bank Recovery and Resolution Directive (BRRD), which was required to be implemented by 1 January 2015. Specific sections governing the bail-in must be applied from 1 January 2016 onwards at the latest. The relevant Dutch implementing Act is expected to be submitted to the Dutch House of Representatives early in 2015.
- The European Market Infrastructure Regulation (EMIR). For NWB Bank, the mandatory central clearing of OTC derivatives under the EMIR is expected to take effect in early 2016.
- The Dutch Act of 2015 amending the Financial Supervision Act *(Wijzigingswet financiële markten 2015)*, part of which entered into force on 1 January 2015.
- The Dutch Cost of Financial Supervision Act *(Wet bekostiging financieel toezicht)*. The Dutch Cabinet seeks to charge the one-off costs of asset quality reviews performed within the framework of the European Banking Union on to the significant banks involved. For that purpose, this section entered into force on 31 December 2014. The remaining sections of the legislative proposal are intended to be introduced on 1 January 2015.
- The mandatory audit firm rotation on the grounds of the Dutch Audit Profession Act *(Wet op het accountantsberoep)*.

Relationship with shareholders

A meeting between a delegation of shareholders, the Chairman of the Supervisory Board and the Chairman of the Managing Board was held on 24 November 2014. Shareholders were updated on current developments at NWB Bank, with other discussion topics being the number of Supervisory Directors, the appointment and reappointment procedure for Supervisory Directors, and the remuneration policy with respect to the Managing Directors. Furthermore, meetings between representatives of shareholders, united in a Shareholders' Committee, the Chairman of the Supervisory Board and the Chairman of the Remuneration and Appointment Committee were held in early 2015 regarding the remuneration policies with respect to the Managing Directors and the Supervisory Directors.

In addition, talks were conducted with the Ministry of Finance within the framework of the policy on publicly held participating interests in relation to executives' appointments and reappointments. The appointment and reappointment procedure addressed during those talks was also discussed with the other shareholders and approved.

Relevant CSR aspects

The Supervisory Board sets great store by NWB Bank properly putting its CSR policy into practice. 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. Special attention was devoted to the issue of the successful 5-year Waterobligatie (Green Bond) benchmark worth €500 million and the presentation of the CSR Award.

In its capacity as the Bank's supervisory body, the Supervisory Board was able to fulfil its duties properly during the year under review, expressing its confidence in the policy pursued. The Managing Board provided the Supervisory Board with ample and up-to-date information, consulting the Board, where needed, about the policy to be pursued.

Reports of the Committees

The Audit and Risk Committee

In the year under review, the Audit and Risk Committee met four times with the Managing Board, the internal auditor and the external auditor being present. The chairman of the Committee also held separate meetings, both with the internal auditor and with the external auditor.

Topics that are discussed each year are the trends seen in the money and capital markets, the financial results, the half-year and annual figures, the dividend and reserve policy, funding, transfer pricing, the budget, ICAAP/ILAAP, various stress scenarios, risk management – including interest rate risk policy – and the reports of the external and internal auditors.

In 2014, topics specifically discussed were ECB supervision, hybrid capital, the COREP and FINREP reporting requirements ensuing from the CRD IV, the CVA capital charge, the appointment of a new external auditor, the recovery plan, the technical analysis of changes in fair value, the liquidity portfolio, the 2013 supervisory review and evaluation process, the new independent auditor's report, Future-Oriented Banking and the consequences of pension changes for accounting.

Furthermore, the Audit and Risk Committee addressed the external auditor's report and management letter for the 2013 financial year in detail, discussing the external auditor's findings about financial developments, financial reporting and the audit of the financial statements, as well as its observations with regard to the Bank's interest rate risk management, credit risk, the completion of the hedge accounting/swap valuation project and the data warehouse project. Lastly, various subjects relating to laws and regulations were discussed.

The Remuneration and Appointment Committee

In the year under review, the Remuneration and Appointment Committee met five times.
The topics it discussed were the renewal of the

pension contract with effect from 1 January 2015, the biannual review of the remuneration policy, the remuneration policy with respect to the Managing Board, the appointment policy and the remuneration policy of the Ministry of Finance for publicly held participating interests, the long-term variable remuneration for 2010 of the Managing Directors, the variable remuneration for 2013 of the Managing Directors, the Managing Board's performance contracts for 2013, 2014 and 2015, the 2013 Remuneration Report, Future-Oriented Banking, the reappointment of Peter Glas in 2015, the filling of the vacancy on the Supervisory Board that arose when Victor Goedvolk stood down, the rotation schedules effective 2014 and 2015, lifelong learning in 2014 and 2015, the Employee Representative Body and the preparations for the establishment of a Works Council.

Remuneration policy

Details of the Bank's remuneration policy are provided in the Remuneration Report on page 71.

Internal organisation

Composition of the Managing Board and Supervisory Board

Composition of the Managing Board

Details of the members of the Managing Board can be found on pages 5 and 6. The male/female ratio on the Managing Board is 67/33, thereby meeting the target figure for diversity under the Dutch Management and Supervision (Public Companies) Act (Wet bestuur en toezicht).

Composition of the Supervisory Board - details

Details of the members of the Supervisory Board can be found on pages 7 through 9.

Composition of the Supervisory Board - profiles, competencies and diversity

To ensure the proper composition of the Supervisory Board of NWB Bank at all times, its members are appointed taking account of the nature of the Bank's operations and activities, and the desirable 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.

The Supervisory Board currently has six members. There is a vacancy for a Supervisory Director to succeed Victor Goedvolk, who was Chairman of the Audit and Risk Committee. Victor Goedvolk stood down as a Supervisory Director of NWB Bank with effect from 1 August 2014 due to the entry into force on that date of the Dutch Act Implementing the Capital Requirements Directive and Regulation (Implementatiewet richtlijn en verordening kapitaalvereisten), restricting the number of executive and non-executive directorships at significant banks. The Board wishes to express its gratitude in respect of Victor Goedvolk for his expertise, in particular for his role as Chairman of the Audit and Risk Committee, and for his huge commitment to NWB Bank.

In compliance with the Management and Supervision (Public Companies) Act, NWB Bank seeks to have at least 30% male and at least 30% female Supervisory Board membership. The current male/female ratio is 67/33%.

An overall profile has been drawn up to provide guidance on the composition of the Supervisory Board and the appointment of its members. In addition, an individual profile is drawn up for each vacancy that arises on the Supervisory Board, which is in line with the overall profile and which candidates must meet. The Supervisory Board aims to safeguard a diverse and balanced composition. The current composition of the Supervisory Board is considered balanced, diverse and representing expertise.

The introduction, on 1 July 2012, of the 2012 Policy Rule on Suitability has seen the DNB assessment procedure tightened considerably. More time-consuming than before, the procedure imposes stricter requirements on the profile of the new Supervisory Board candidate, assessing not only the expertise, but also the suitability of the nominee for appointment or reappointment. Aspects considered are the specific role of the Supervisory Director, the company's situation and the Board on which the Supervisory Director will fulfil her or his role. Of the Board's six members, three – Age Bakker, Else Bos and Maurice Oostendorp – possess in-depth financial expertise, a background in banking, and knowledge of international money and capital markets and of risk management. The remaining three – Peter Glas, Albertine van Vliet-Kuiper and Berend-Jan van Voorst tot Voorst – have ample experience in public administration and government policy and have networks in government circles. During the Annual General Meeting of Shareholders to be held in April 2015, the Board will nominate a candidate to succeed Victor Goedvolk, who has ample risk management experience. The members' diverse backgrounds also guarantee adequate knowledge of and affinity with corporate social responsibility.

In view of the foregoing, the composition of the Supervisory Board ensures that it possesses the combined knowledge and experience required.

During the Annual General Meeting of Shareholders of 23 April 2014, a resolution was passed to amend NWB Bank's Articles of Association with respect to the composition of the Supervisory Board. Reasons for the amendment include good governance, a reduction in the Board's membership, and the requisite diversity and financial expertise among its members. The quality requirement laid down in the Articles of Association of having two "water board members" on the Board was dropped. Instead, the shareholding water boards were given the right to nominate candidates for the appointment of two Supervisory Directors. Candidates must meet the profile adopted by the Supervisory Board and may be from outside the world of the water boards.

Composition of the committees

The Audit and Risk Committee

The members of the Audit and Risk Committee are Maurice Oostendorp (Chairman), Age Bakker and Else Bos. All three members possess in-depth financial expertise, a background in banking, and knowledge of international money and capital markets and of risk management. On 23 April 2015, Maurice Oostendorp will succeed Peter Glas as Deputy Chairman of the Supervisory Board.

The Remuneration and Appointment Committee

The members of the Remuneration and Appointment Committee are Berend-Jan van Voorst tot Voorst (Chairman), Age Bakker and Albertine van Vliet-Kuiper. Peter Glas has a standing invitation to attend the Committee meetings. All members have adequate knowledge of and experience with remuneration policies and appointments, gained from their different backgrounds. On 23 April 2015, Peter Glas will succeed Berend-Jan van Voorst tot Voorst as Chairman of the Committee.

Oversight quality assurance

Self-assessment

The Supervisory Board assessed its own performance in the first half of 2014. Using an online assessment tool, the following and other elements were assessed.

- the set-up and composition of the Board
- the Chairman's performance of his duties
- the Board's various roles as a supervisor, as the Managing Board's "employer" and as an adviser
- interaction among the Board's members, between the Board and the Managing Board and between the Board and stakeholders

An element that was given special attention was the composition of the Board. As set forth above, the Articles of Association of NWB Bank were amended on this point in 2014, which has resulted in the Board's reduced membership.

In addition, the Supervisory Board performs a self-assessment under the supervision of an independent expert once every three years, in compliance with the Dutch Banking Code. Such an assessment was most recently performed in 2012 and we aim to perform it again in 2015.

Education

Within the context of the lifelong learning programmes for the Managing and Supervisory Directors, external consultants and the Bank's employees again provided various presentations in 2014. Topics included Corporate Social Responsibility, hybrid capital, Total Loss Absorbing Capacity (TLAC) and MREL. In addition, individual Supervisory Directors attend external courses at their own request, depending on their expertise and experience. The effectiveness of lifelong learning initiatives is assessed annually.

Following their appointment, new members of the Supervisory Board must follow an in-house induction programme addressing general financial, social and legal matters, financial reporting, the specific features of NWB Bank and its business operations, and the responsibilities of a Supervisory Director.

Independence

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 requirements in this respect. In addition to meeting those requirements, new members must satisfy specific criteria included in the relevant individual profiles. The Supervisory Board seeks to operate independently by ensuring the diversity of its composition in terms of such factors as age, gender, expertise and social background. All Supervisory Directors are independent within the meaning of the Dutch Corporate Governance Code.

Conflicts of interest

The Supervisory Directors have informed NWB Bank of all other relevant positions they hold. Two potential conflict of interest situations occurred in the year under review. It pertained to non-material transactions between NWB Bank and institutions one of whose Managing Directors respectively one of whose Supervisory Directors was also a Supervisory Director of NWB Bank. The Supervisory Director in question so notified the Bank, affirming that the debate and the decision-making process regarding the transactions had not been participated in.

Information from external experts

The Supervisory Board has the option of making inquiries from external experts if warranted by the fulfilment of its duties. For instance, if and when needed, the Board requests information from NWB Bank's external auditor. In addition, the services of an external consultancy firm may be retained to supervise the Board's self-assessment. Information is also gathered by attending meetings of the Employee Representative Body (ERB), which was established in 2013. The Chairman of the Supervisory Board attended a meeting of the ERB in 2014. The Board engaged an external consultancy firm to perform a benchmark survey with respect to remuneration of the Bank's Managing and Supervisory Directors. The results of this survey were shared with the Shareholders' Committee, which deals with the remuneration policy with respect to the Managing Directors.

Internal auditor

The Bank's internal auditor and external auditor attended all meetings of the Audit and Risk Committee. Furthermore, the Chairman of the Audit and Risk Committee had a separate meeting with the internal auditor and the external auditor to discuss such items as the mutual relationships, as well as findings and any bottlenecks identified in the past year. The IAD presents its findings for the year under review in quarterly reports, which are discussed during Audit and Risk Committee meetings. The IAD also presents its annual audit plan. The Supervisory Board is informed about the plan by the Audit and Risk Committee, and ensures that the IAD's recommendations are followed up.

External auditor

Like the internal auditor, the Bank's external auditor also attends all meetings of the Audit and Risk Committee. The Chairman of the Audit and Risk Committee also had a separate meeting with the Head of the IAD and the external auditor to explicitly discuss specific areas for attention, as well as mutual relationships.

A new Act, which took effect on 1 January 2014, obliges public-interest entities in the Netherlands to change external auditors at least every eight years, subject to a three-year transitional period until 2016. The Act also applies to NWB Bank, which means that the Bank must retain the services of a different external auditor no later than at the beginning of the 2016 financial year. The external auditor is appointed by the General Meeting of Shareholders. The Supervisory Board appointed current external auditor KPMG with effect from the beginning of the 2007 financial year, having been authorised by the Meeting to do so. The appointment of the new external auditor will be placed on the agenda for the Annual General Meeting of Shareholders to be held on 23 April 2015.

Organisational matters

Reappointment of Managing and Supervisory Directors

During the Annual General Meeting of Shareholders of 23 April 2014, Dolf van den Brink, Chairman of the Supervisory Board, stood down on reaching his maximum term of office. The Supervisory Board subsequently elected Age Bakker, who had been appointed to the Supervisory Board in 2012, Chairman of the Supervisory Board. Sjaak Jansen stood down at his own request within the context of the reduction of the Board's membership.

As set forth above, Victor Goedvolk stood down as a Supervisory Director of NWB Bank on 1 August 2014. A candidate to fill the vacancy that has consequently arisen will be nominated during the Annual General Meeting of Shareholders to be held on 23 April 2015. During that same Meeting, Peter Glas will be nominated for reappointment.

In December 2014, we were informed of Dolf van den Brink's death. The sad news has shocked all of us. Dolf van den Brink joined NWB Bank as a Supervisory Director in 2002 and was the Board's Chairman from 2004 until he stood down in April 2014. His in-depth knowledge of the banking sector and his personal involvement in NWB Bank's developments and role in society have been of exceptional importance to the Bank. In a critical and constructive fashion, he knew how to inspire Managing and Supervisory Directors alike, and how to keep the Bank on course. We will remember his energy, sense of humour and striking personality.

Attendance

The attendance rate of the Board as a whole was 94%.

Compliance with the corporate governance principles

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 135 illustrates how the Code's principles have been embedded in the Bank's operations. The other corporate governance subjects are discussed in the Corporate Governance chapter on page 31.

A word of thanks

In 2014, the Bank's Managing Directors and employees once again showed great dedication in all respects. The Supervisory Board wishes to express its gratitude to all employees and Managing Directors for this, as well as its appreciation for all results that were achieved.

The Hague, the Netherlands
18 March 2015

The Supervisory Board

Age Bakker
Else Bos
Peter Glas
Maurice Oostendorp
Albertine van Vliet-Kuiper
Berend-Jan baron van Voorst tot Voorst

Report of the Managing Board

General

Against the backdrop of a cautiously recovering economy, the euro zone faced a number of special developments in 2014, such as interest rates plummeting to historically low levels, oil prices plunging almost 50% and a sharp increase of the US dollar against the euro. Another important event was the decision of the European Central Bank (ECB), in September, to further ease its monetary policy in response to the sustained decline in inflation and its fears of a potential deflationary spiral in the longer term. Further to the falling oil prices, ECB President Mario Draghi announced in December that the ECB wished to pursue an even more active policy of monetary easing. This led to speculations about the last resort: the purchase of government bonds. Another special event was the start, on 4 November, of the European Banking Union, its first pillar being the Single Supervisory Mechanism (SSM), under which the ECB will supervise European banks. The end of the year was characterised by unrest, in view of Greece possibly leaving the euro zone. Finally, 2014 saw increasing geopolitical tensions posing a threat to both Europe and the international economy.

In the Netherlands, the 10-year government bond yield fell from 2.2% in January to under 0.7% in late December. Money market interest rates fell to levels of about 0% in the course of 2014. The past year also saw the advent of negative money and capital market interest rates. The ECB's policy rate was lowered to the historically low level of 0.05% in two steps, in June and September. The deposit rate even fell to 0.2% negative. In addition, in October, the ECB decided to enlarge the money supply by injecting €1,000 billion on the basis of a purchase programme for asset-backed securities and covered bonds, and the issue of Targeted Long-Term Refinancing Operations (TLTROs), on condition the funds be lent on to small and medium-sized businesses.

In contrast to the tentative economic trends in the euro zone, the United States found their way back up, hence leading the phased economic recovery. At the beginning of 2014, the Federal Reserve Board started tapering its Quantitative Easing. The contrast that has thus arisen between the euro zone and the United States manifests itself in, among other things, a sharp increase in interest rate differences between US capital market interest rates and those in the euro zone. In combination with this, a downward pressure on the euro against the US dollar has arisen.

The Netherlands saw signs of a recovering economy in 2014. After years of restructurings and austerity measures, both the public sector and the private sector showed balance sheet recoveries. Since 2013, the government's budget deficit has remained under the ceiling of 3%. In addition, the Dutch EMU debt rose much less strongly, although this debt, at 70% of the GDP, is still higher than the ceiling of 60% agreed in the European Union's Stability and Growth Pact. Cyclical recovery is visible in an increase in Dutch exports and cautiously recovering corporate investment. In 2014, the market for owner-occupied houses seemed to have bottomed out, with volumes rising and the sharp fall in prices of the past years having come to a virtual halt. Fewer subsidised rented houses were built in 2014. However, the positive signs were counterbalanced by weak consumer spending and unemployment rates remaining high, be it slightly dropping. The CPB Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau) expects an increase in disposable income in 2015 to result in further employment growth.

NWB Bank in 2014

Overview

In the year of NWB Bank's 60th anniversary, its total lending to the Dutch public sector landed at over €6 billion[1], which is substantially up on last year's amount (€5 billion). Demand from housing corporations, in particular, was well-sustained, mainly in relation to the refinancing of existing loans. In addition, the Bank purchased loans offered in the secondary market.

Following a decline in 2013, the housing corporations' share in the Bank's total lending increased again. In the Dutch public sector, housing corporations still take up the largest share of the lending portfolio, with lending to housing corporations amounting to €3.8 billion, i.e. 63% of total lending. The Bank further bolstered its market share where the financing of water boards was concerned. The share of municipal authorities in lending dropped slightly, which is, in part, down to fiercer competition in this segment.

The Bank retained its market share despite such fiercer competition. Given its low risk profile, institutional investors, also from abroad, are interested in the Dutch public sector. Furthermore, in the light of the obligation introduced in 2014 to engage in treasury banking with the central government, a number of local authorities have started to mutually lend their excess cash funds.

Besides granting regular loans, the Bank purchased NHG RMBS notes (Residential Mortgage Backed Securities, based on home mortgages that are government-backed under the National Mortgage Guarantee fund) for a total of €1.1 billion, causing this portfolio to grow to €2.4 billion at year-end 2014. In purchasing these notes, NWB Bank contributes to the financing of government-backed home mortgage loans taken out by private individuals.

NWB Bank raised a record amount in funding in the international money and capital markets in 2014. A total of €13.3 billion in long-term funding was raised. Additional funding was required for the collateral obligations - which had increased with the further decline in interest rates - in connection with derivatives positions, in particular. This past year, it became clear that NWB Bank qualifies as a "Promotional Lender" within the framework of the Basel III standard liquidity ratios in relation to maintaining liquidity portfolios. This means the bonds NWB Bank issues have the highest liquidity status (Level 1), causing the interest in such bonds to rise, which, in turn, contributed to the favourable funding rates the bank was able to achieve last year. Interest in the Bank's short-term funding is also high. The Bank raised a total of €12 billion under the Euro Commercial Paper programme (ECP) and €4.4 billion under the US Commercial Paper programme (USCP).

In June 2014, the Bank issued a Green Bond for the first time. The bond is worth €500 million and has a maturity of five years. This type of loan is used exclusively in respect of water boards' sustainable investment projects, which explains its (Dutch) name of Waterobligatie. Interest in the bond was quite high, in particular from European investors. In issuing the Green Bond, the Bank took another important step towards achieving its CSR ambitions. Furthermore, the Bank presented its CSR Award for the second time, this year to housing corporation Portaal, with its *"de Stroomversnelling"* (the rapid) project.

In December 2014, the Bank agreed on a special partnership with the European Investment Bank (EIB), for purposes of joining forces in relation to long-term funding in the public domain, the focus areas being sustainable public transport, healthcare, education, social housing, renewable energy and energy savings, and water and climate adaptation and mitigation (for instance dams, dykes and locks).

Standard & Poor's (S&P) and Moody's left NWB Bank's Aaa/AA+ ratings - equal to those of the State of the Netherlands - unchanged in 2014. Additionally,

1) Including spread resets

Moody's assigned a negative outlook to Dutch public sector banks, and to 81 European banks, in the light of an investigation into the consequences of the implementation of the Bank Recovery and Resolution Directive (BRRD). On 17 March 2015, the rating agency presented its findings in combination with the application of its new methodology for banks. For NWB Bank, this means the negative outlook has been changed into a stable outlook with an unchanged rating, so that it is equal to that of the State of the Netherlands. NWB Bank also holds the view that the entry into force of the BRRD will not change its risk profile.

Net profit for 2014 amounted to €49.0 million; a €15 million increase against 2013, which was fully the result of a sharp improvement of net interest income by over €22 million to €117.4 million, with results from financial transactions - being mainly unrealised results - somewhat deteriorating by approximately €2 million to - €16.4 million.

Following an increase in 2013, operating expenses (€16.2 million) and bank tax (€14.6 million) landed at virtually the same levels as in 2013 (€16.1 and €14.9 million, respectively). The fact that operating expenses were higher in the past years is principally due to investments made in staff and systems, as well as being due to advisory fees ensuing from the organisation's requisite further development. This holds true not only for such areas as risk management, compliance and ICT, but also for the expansion of international funding activities, the intensification of customer relations and the entry onto new markets, such as last year's project financing as part of Public-Private Partnerships (PPPs). Furthermore, the Bank is facing increased costs in connection with the transition to European banking supervision and such national levies as bank tax. Add to this a contribution to the resolution fund in 2015, further to the entry into force of the BRRD. The Bank assumes that its very low risk profile is also expressed in a relatively lower contribution to the fund. It would also be reasonable to assume that bank tax will be abolished as a resolution levy will be introduced, since the two measures serve the same purpose. Despite the increase in operating expenses due to these requisite investments and supervisory costs, the Bank succeeded in maintaining its compact and efficient organisational model.

At €49.4 billion at year-end 2014, total lending was virtually unchanged compared with year-end 2013. During the same period, total assets increased to over €88 billion (+ €15 billion). Apart from an increase in the liquidity portfolio, the rise was mainly due to the decline in interest rates in 2014, causing the fair value of balance sheet items and collateral outstanding in connection with derivatives positions to rise. The Bank's derivatives positions only serve to hedge against interest rate and currency risks. The increase in total assets and the slight increase in the Bank's equity caused the leverage ratio to edge down by 0.1 percentage point to 1.6%. In January 2014, the Basel Committee on Banking Supervision (BCBS) announced a modified method for calculating leverage ratios. Based on the new method, which will result in a permanent increase in leverage ratios, NWB Bank's ratio would have come to 1.8% at year-end 2014. The minimum required, which is due to apply from 1 January 2018 onwards, has not been established as yet, but the Bank assumes, for the moment, that it will be 3%.

The Bank's disclosed equity stood at €1,303 million at year-end 2014 (including profit for 2014) (€1,256 million at year-end 2013) and is comprised almost entirely of Tier 1 capital. Risk-weighted assets stood at €1,780 million at year-end 2014, which means that the Tier 1 ratio, i.e. equity as a percentage of risk-weighted assets, came to 73% (including profit for 2014) and 70% (excluding profit for 2014). With the entry into force of the Capital Requirements Regulation and Directive (the CRR and CRD IV) on 1 January 2014, the Tier 1 ratio dropped by about a quarter, due to the introduction of the Credit Valuation Adjustment (CVA) capital charge, which represents the fair value of the counterparty risk in relation to derivatives. It will, however, still be amply in excess of the 6% minimum requirement, testifying to NWB Bank's high creditworthiness and low risk profile.

This past year, the ECB assessed approximately 130 European banks before taking on direct supervisory duties in respect of such "significant" banks in November. NWB Bank and six other banks in the Netherlands were also subject to such Comprehensive Assessment (CA), which comprised an Asset Quality Review (AQR), investigating the quality and value of assets, as well as both on-balance sheet and off-balance sheet credit exposures and a forward-looking stress test based in part on the AQR. The AQR and stress test scores are consistent with the high-quality risk profile pursued by the Bank. Even in the most stringent stress scenario, the Bank's Tier 1 ratio is still over 54%, with the minimum applied by the ECB being 5.5% (in the event of a lower percentage, the bank in question must draw up a plan to shore up its capital position in the short term). The ECB now bears responsibility for prudential supervision of the Bank, exercising such supervision in a "joint supervisory team" with the Dutch Central Bank (De Nederlandsche Bank, DNB) in its capacity as the national supervisor of the banking sector. In addition to the SSM, under which prudential supervision of European banks is now organised, the European Banking Union has been established to include a second and third pillar. The second pillar is the Single Resolution Mechanism, aimed at the recovery and settlement of banks, and the third is the Deposit Guarantee Scheme, which sets rules for banks' guarantee obligations towards deposit holders. In this new European playing field with many new rules and authorities, it is important that powers, responsibilities and lines of communication are allocated clearly, effectively and efficiently, that consistency is safeguarded and that the differences between banks' profiles and their business models are duly considered, in conformity with the principle of proportionality applied in Europe.

Addition to the reserves; dividend

In early 2011, NWB Bank decided to start adding its annual net profits to the reserves to the maximum extent possible with a view to the Basel III capital requirements. As the announced minimum required leverage ratio that will take effect on 1 January 2018 has as yet been set at 3%, no dividend will be distributed until the Bank satisfies that minimum requirement. As stated above, the leverage ratio stood at 1.6% at year-end 2014 (1.8% based on the new definition proposed by the Basel Committee and including profit for the year). Besides retaining profit, the Bank is also considering the options of strengthening its capital base by issuing hybrid capital instruments. In this connection, the Bank raised €200 million in additional Tier 1 capital from four provincial authorities. Payment will be made later in the year, upon completion of DNB's formal procedure. This is an important step towards satisfying the leverage ratio requirement by 1 January 2018, which will be established - in 2017, as matters stand now - based on the assessment carried out by the European Banking Authority. NWB Bank is fully confident that it will be able to continue satisfying all future capital requirements.

Against this backdrop, the Managing Board has decided, following the Supervisory Board's approval, to add the €49.0 million net profit for 2014 to the general reserves in full. Accordingly, no profits will be at the disposal of the Annual General Meeting of Shareholders to distribute as dividends for the 2014 financial year.

Outlook for 2015

Prospects for the Dutch economy in 2015 are moderately favourable. Investment levels will remain subdued in the public sector and the private sector alike. Following the higher lending volumes of 2014, NWB Bank's lending volume is expected to return to previous years' levels in 2015. Current forecasts indicate that the Bank's interest income is set to rise in 2015 due to improved interest margins on new loans of the past years.

Strategy

Ever since it was incorporated in 1954, NWB Bank has focused on its role as a robust and efficient caterer to the combined finance needs of customers in the public playing field, aiming to lower the public sector's finance charges. Rather than seeking to maximise its profits, the Bank's policy is geared to achieving reasonable profits that are adequate to safeguard the Bank's continuity and that enable the Bank's future growth. The Bank's shares are held exclusively by Dutch public authorities. 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 NWB Bank's robust profile. Sustainability and relevance to society are key spearheads in that strategy. Corporate social responsibility, a strong financial position, and efficient, professional and transparent business operations are the cornerstones of the Bank's efforts to keep enhancing its contribution to society. Within that context, a decision was made in 2013, in consultation with the shareholders, to expand the Bank's range of services by financing projects that use the PPP model. In 2014, the relevant organisation was set up and ready to enter this new market. In the future, the Bank will also stay alert to opportunities to anticipate the changing needs of its customers in the public domain and to enlarge its contribution to Dutch society. A key condition will be a stringent risk management policy aimed at maintaining its highly robust risk profile, including high solvency and commensurate credit ratings. The present low interest rates barely affect interest margins in its lending operations. Interest rate trends do impact the Bank's interest revenue from equity. Interest on equity moves along the lines of interest rate trends of long-term loans to the Dutch public sector, on which the Bank focuses with its long-term lending.

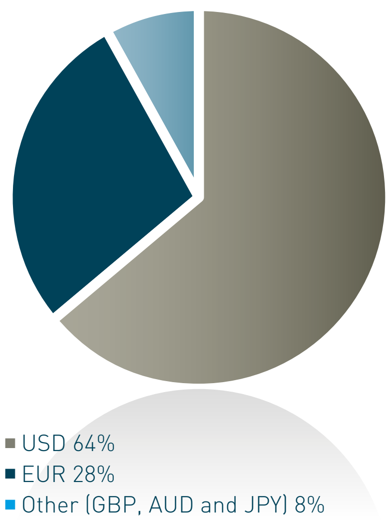
Developments in 2014

Funding

To raise long-term funding, NWB Bank uses its €60 billion Debt Issuance Programme (DIP), under which standardised documents are used for the lion's share of the loans raised. Funding is obtained in various currencies and immediately converted into euros. The Bank's funding strategy is to respond to investors' requirements in the most flexible manner possible, which, together with its excellent creditworthiness, enables it to raise funds on the most favourable terms.

NWB Bank has Aaa and AA+ ratings from Moody's and S&P, respectively, equal to those of the State of the Netherlands. In November, DNB confirmed that NWB Bank is a "Promotional Lender" in the light of the liquidity coverage requirement under the Capital Requirements Regulation (the CRR). This means the bonds issued by NWB Bank qualify as High Quality Liquid Assets Level 1.

The year 2014 was characterised by declining interest rates. In addition, the spreads for credit and liquidity risks that had to be paid when raising long-term funds shrunk.

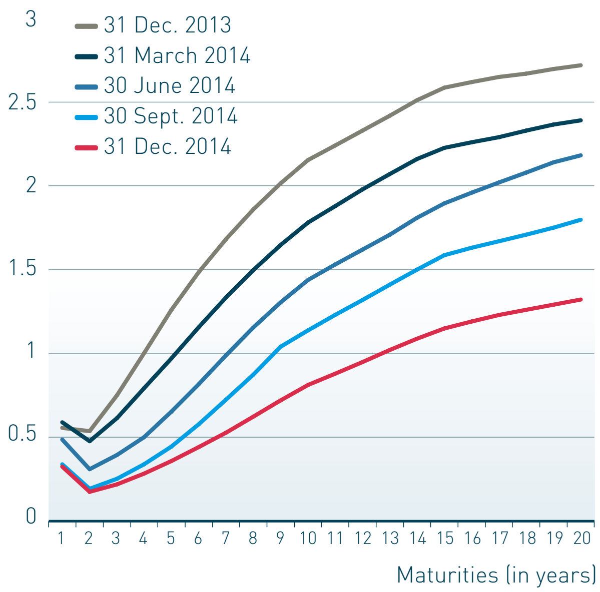


NWB Bank raised long-term funding totalling €13.3 billion in 2014. Maturities averaged 5.1 years. Of the €13.3 billion, 64% was raised in US dollars, 28% in euros and the remainder in British pounds, Australian dollars and Japanese yens.

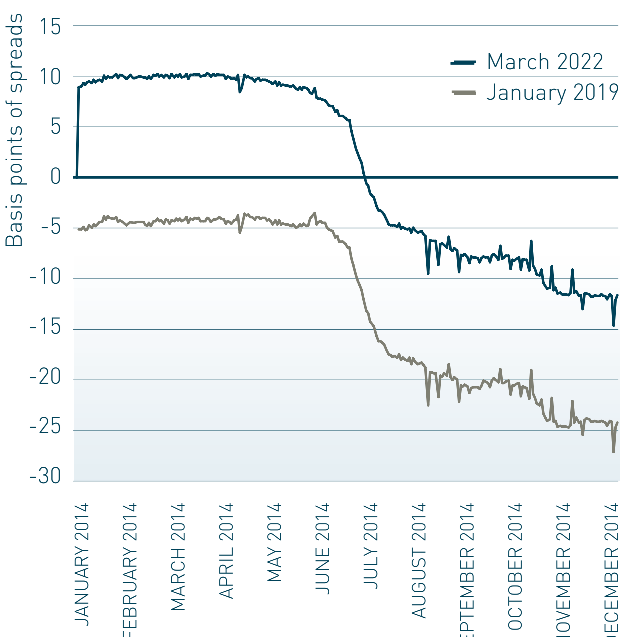
A striking feature is the large share of US dollar funding (64%), which can be explained by the highly favourable terms of basis swaps from US dollars to euros. Normally speaking, funding with maturities of up to five years is less expensive in US dollars (upon swapping) than in euros.

The share of benchmark loans is 26%, slightly less than in previous years. The benchmarks are important in relation to recognition of the Bank's name in the market, but they do constitute a more expensive form of funding. A 3-year US dollar benchmark was issued in September,

Yield curve changes



ASW spreads of NWB Bank at 6m Euribor



following two benchmark loans in the first half of the year, i.e. a 5-year euro and a 5-year US dollar benchmark loan. All of these benchmarks were successful, their order books having been well over-subscribed. In addition to the customary institutional investors and central banks, bank treasuries were amply represented, which may be explained on the basis of the Basel III rules.

Under those rules, banks must maintain marketable securities to meet the Liquidity Coverage Ratio (LCR). In 2014, most banks already considered NWB Bank's debt instruments to be securities with the highest liquidity status (Level 1), causing the interest on the part of bank treasuries to rise, which, in turn, contributed to spreads shrinking in 2014. In November, DNB rendered a final decision as to the Bank's Level 1 status, which will result in a further increase of the share of bank treasuries in the order books.

In 2014, €950 million in loans was raised under what are known as Namensschuldverschreibungen, which are bilateral contracts under German law that do not come under the DIP programme. Maturities typically start at 20 years. These debt instruments are purchased mainly by German-based insurance companies and pension funds. Their maturities make them attractive to NWB Bank, as they provide a good match with the Bank's lending. Moreover, they contribute to further diversification of our investor base.

In June, NWB Bank issued its first Green Bond, the Waterobligatie, which is worth €500 million. With this successful issue, NWB Bank attracted new investors and enlarged the market for green bonds. Besides such traditional investment considerations as investment safety and risk/return balance, 69% of the bonds were purchased by investors on account of their interest in supporting climate-friendly projects as part of their investment mandate. Yields are earmarked to finance water boards' activities in the fields of flood prevention, water management and water quality.

To raise money market funding, NWB Bank uses commercial paper - debt instruments with maturities of up to a year. The Bank operates not only a Euro Commercial Paper programme (ECP), but also a US Commercial Paper programme (USCP) aimed solely at the US market. A total of €12 billion with maturities averaging 4.7 months was raised under the ECP and €4.4 billion with maturities averaging 7.2 months under the USCP.

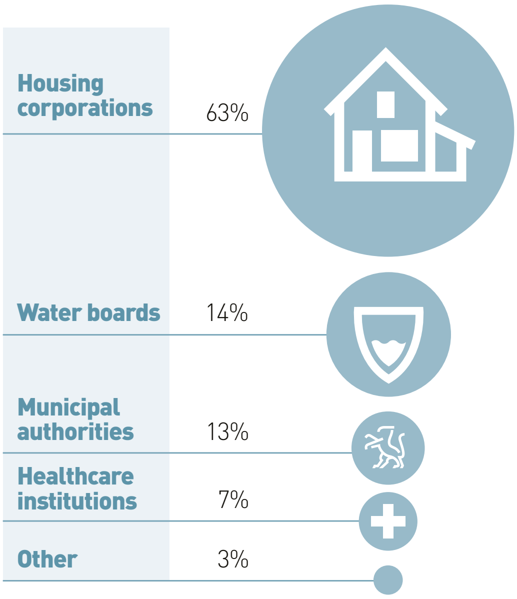
Lending

In 2014, at €6.1 billion, total long-term lending was up almost €0.8 billion on 2013. The increase shows that NWB Bank turned out to be able, in a market characterised by increasing competition and a declining demand for finance from the customer sectors, to maintain its high market share in public sector debts. Average maturities of long-term lending dropped slightly in 2014. Nonetheless, more than half of loans and advances are subject to maturities averaging over 10 years. In other words, customers still choose to mitigate interest rate risks in relation to long-term maturities, impacted, of course, by the ongoing decline in capital market interest rates and credit spreads. The lion's share of long-term lending ensued from loans with fixed-income coupons, whose variety is mainly to be found in their specific repayment patterns. Although the housing corporation sector still strongly prefers repayment-free schedules, the other customer sectors increasingly use amortisation, with repayment primarily taking place according to straight-line or annuity patterns. However, repayment schedules with specific cash flow changes are also common, tailored to match either a specific project or a customer's overall interest rate risk position; the latter possibly in combination with adjusting the duration schedule of its existing loans portfolio. Over the past year, NWB Bank saw demand for these types of loans rise. In concluding such loans, it is of importance that the customer be provided with an insight into the underlying fair value calculations and any accounting implications. This offers the Bank the option of assisting customers in this process, thus distinguishing itself from providers that tend to approach the public sector from an investment perspective. Given our customers' changing financial prospects, we expect demand for these products to remain level during the coming year as well.

A smaller portion of the Bank's lending volume is comprised of loans with variable interest rates. These "roll-over loans", with the Euribor as their reference rate, are particularly in demand in the housing corporation sector, for various reasons. First, such loans may substitute for a series of cash loans. Given that the Waarborgfonds Sociale Woningbouw (WSW) guarantee fund does not guarantee cash loans, roll-over loans constitute an attractive alternative in terms of price and availability. This is achieved by laying down times at which the principal may be changed.
NWB Bank offers the option of doing so weekly or even every other day, which may be particularly useful if a liquidity buffer is to be arranged based on an existing derivatives portfolio. This is a requirement of the Dutch Central Fund for Social Housing (Centraal Fonds Volkshuisvesting CFV), which is based on a scenario in which swap interest rates drop 2%. Considering the ongoing decline in capital market interest rates, NWB Bank received several requests to this end during 2014. Additionally, a roll-over loan may be linked to an interest rate swap the customer concluded with another party in the past, so that, in fact, a fixed-interest loan is brought about. This option is particularly popular in respect of long maturities. Credit spreads may be reset prematurely, in which case they are subdued on account of shorter liquidity maturity.

The following table shows lending broken down by sector in 2014.

Lending broken down by sector, 2014



Water boards

In 2014, NWB Bank granted over 98% of long-term loan requests by water boards, bolstering its market share in this sector as a result. The volume for 2014 increased by almost €0.1 billion to €0.9 billion compared with 2013, in line with the Bank's objective of fulfilling a dominant financing role for its shareholders. Obviously, this is possible only if a very strict pricing policy is applied. The Bank aspires to strengthen its dominant role over the next few years, so as to continue fulfilling its core duty towards shareholders. The water boards' financing requirement is set to rise over the years ahead, in view of the national flood protection programme (Hoogwaterbeschermingsprogramma). This programme, which will be in place through 2028, forms part of the national Delta Programme and is one of the most sizeable water projects ever implemented in the Netherlands. Research has shown that almost 800 kilometres of the Netherlands' dams and dykes no longer satisfy the requirements set. The Dutch central government set up the Delta Programme so as to ensure that the flood prevention and water management programmes are in sync with the climate change anticipated these coming decades, taking account of both patterns of heavier rainfall and prolonged periods of drought. The water boards and Rijkswaterstaat (the executive agency of the Dutch Ministry of Infrastructure and the Environment) are taking an array of measures to once again make the primary dams meet the safety standards set, mutually agreeing that they will share equally in the required financing.

Provincial and municipal authorities

Due to their solid liquidity positions, provincial authorities were not in the market this past year for long-term financing. Municipal authorities again frequently used cash loans in 2014, keeping interest costs low and benefiting from the present low money market rates. The rise in short-term lending is cancelled out by a decline in long-term lending volumes to municipal authorities in 2014, by slightly less than €0.3 billion to €0.8 billion. One factor in this is the fiercer competition. For example, provincial authorities increasingly opt to lend long-term funds to municipal authorities as an alternative to maintaining their surplus funds in the Treasury ("treasury banking"). Another factor is the increasing participation in the sector of brokers bringing about transactions between municipal authorities, on the one hand, and provincial authorities and institutional investors, on the other. A further reason for the decline is the slightly decreasing demand for loans and advances from municipal authorities, which primarily involves the refinancing of existing loans. The decentralisation of the central government to municipal authorities of such duties as youth welfare and care for the long-term ill, as well as further write-downs on land positions, impact municipal budgets, resulting in municipal authorities having become reluctant when it comes to making investments. Finally, it will continue to be difficult for NWB Bank to compete in this sector, because tendering arrangements made with other parties are still abundant. This makes it difficult to compete on price, thus creating added value to society, on the basis of equality and transparency.

Housing corporations
Despite its reduced ambitions in terms of investments, the housing corporation sector still accounts for the highest demand for loans within the state system, with NWB Bank's volume figures reflecting this. The sector's volume increased by almost €0.9 billion to over €3.8 billion in 2014 compared with 2013 and largely related to the refinancing of the existing loans portfolio and to reaching agreement on a new interest coupon upon contract review. For the coming years, NWB Bank will be taking a declining demand for finance into account. The additional tax on housing corporations (verhuurdersheffing) and the anticipated income tax take up a considerable amount of the operating income of housing corporations, which consequently adjust their policies by building fewer houses, increasing rents, and lowering staff and operating expenses. Furthermore, the amendment to the Dutch Housing Act (Woningwet) proposed by the Cabinet will curtail housing corporations' fields of operations. Partly as a consequence of this, housing corporations are postponing investments. Moreover, some housing corporations are compelled to reduce their housing portfolios. If the politically desirable sale of houses is achieved, refinancing will no longer be necessary. Within this context, NWB Bank received requests to prematurely repay loans in 2014.

Owing to a series of incidents that occurred in the housing corporation sector, governance and supervision are key focus areas today, which is reflected in the amended version of the Housing Act and the recommendations made by the Committee of Parliamentary Inquiry into Housing Corporations, one specific item being the best possible organisation of external financial supervision. According to the Committee, the supervisor should be an independent administrative body; according to the Minister, it should be a department coming under ministerial responsibility. The Committee recommends that it be made possible that housing corporations can be declared bankrupt and that the WSW guarantee fund be mandated to implement the restructuring programme. As NWB Bank only grants guaranteed loans, it is not sensitive to any such bankruptcies.

Healthcare sector
Long-term finance granted to healthcare institutions dropped slightly in 2014 to over €0.4 billion. This decrease was already on the cards, given that these past years saw a downward trend in the volume of long-term loans backed by the Healthcare Sector Guarantee Fund (Waarborgfonds voor de Zorgsector, WFZ) and the fact that the WFZ had forecast this trend's continuation. First of all, the decline relates to system changes. "Deinstitutionalisation" is central to the government's policy, the general trend being to keep patients outside healthcare institutions to the extent possible. In other words, contrary to a few years back, capacity is no longer intended to be expanded. This is expected to have its impact in the coming years. Second, uncertainty is prevalent, such as regarding the introduction of the effect of market forces and of recent measures to control costs in the healthcare sector. Within this context, it is difficult for healthcare institutions to render responsible decisions on sizeable investments, facing more stringent risk assessments by the WFZ. Moreover, the government ever more emphatically waives responsibility for the continuity of individual care providers.

Risk management
Where risk management is concerned, last year was characterised by the Comprehensive Assessment (CA) conducted by the ECB. NWB Bank qualifies as a significant bank and was, therefore, subject to the CA prior to the transfer to the ECB of direct supervision of the approximately 130 significant banks from 4 November 2014 onwards.

Besides assessing the relevant banks' risk profiles, the CA comprised investigations of their assets (Asset Quality Reviews, AQRs) and the performance of stress tests. The CA's score testifies to NWB Bank's highly robust risk profile. The combined AQR score and that for the most stringent stress scenario led to a decline in the Bank's Common Equity Tier 1 ratio to over 54%, still amply exceeding the minimum of 5.5% the ECB sets as a requirement. Banks scoring below this minimum requirement had to draw up a plan to shore up their capital positions in the short term. The Bank's CA score did not give rise to any restatement of equity and profit.

Furthermore, at DNB's request, NWB Bank drew up a "recovery plan", describing the measures to be taken to keep its footing in a financial crisis - a special request for NWB Bank, with its low risk profile and high solvency, but then again, recovery plans are required for all banks. NWB Bank considered it very useful to think thoroughly about its crisis management organisation and the recovery measures available to it in such extreme circumstances, and to subsequently flesh them out. DNB approved the Bank's plan in the autumn. The plan is to be tested and updated at least yearly.

NWB Bank's borrowers are mainly public authorities and government-backed institutions. In addition, for liquidity purposes, the Bank holds an interest-bearing securities portfolio comprising mainly Residential Mortgage Backed Securities that are government-guaranteed under the National Mortgage Guarantee (NHG) scheme and bonds issued or guaranteed by the Dutch public authorities. A decision was made in 2013, in consultation with the shareholders, to expand the Bank's range of services by financing projects that use the PPP model. The Bank hired expert staff in this area and developed a risk assessment framework. A number of propositions have since been assessed, but an actual transaction is as yet forthcoming.

Throughout 2014 and indeed throughout its history, NWB Bank has never suffered a loan loss. The Bank enters into swap transactions with financial counterparties to hedge against interest rate and currency risks. Management of the ensuing counterparty risk has been stepped up these past years, as regards, among other matters, the frequency of the exchange of collateral. The contractual arrangements laid down in Credit Support Annexes were also further tightened. Furthermore, the Bank is making good progress in terms of preparing for the transition to central clearing for interest rate derivatives. Moreover, in conformity with the European Market Infrastructure Regulation (EMIR) rules, a start was made, in the first half of 2014, with reporting on the Bank's derivatives to a "Trade Repository". Since the end of 2013, the fair valuation of swaps has also included a CVA, which represents the fair value of the counterparty risk in relation to derivatives or, in other words, the likelihood of the counterparty defaulting and the loss that is expected to occur as a result. In addition, with the entry into force of the CRR/CRD IV on 1 January 2014, a "CVA capital charge" was introduced, entailing the enhanced allocation of capital to possible CVA changes, causing the Tier 1 ratio to drop, on a non-recurring basis, by approximately a quarter.

As at year-end 2013, NWB Bank again satisfied the minimum requirements in the area of liquidity risks that will apply in the years ahead, in conformity with the rules that entered into force on 1 January 2014 (the CRR/CRD IV). The Liquidity Coverage Ratio and the Net Stable Funding Ratio landed at 144% and 107%, respectively.

Likewise, the Bank amply satisfies the capital requirements for risk-weighted assets. While the Basel Committee referred to a minimum requirement of 3% for the leverage ratio, the actual requirement for the new unweighted leverage ratio due to take effect in 2018 is as yet unknown. The European Banking Authority is studying the impact the requirement has on various business models in the banking sector and will present its findings in 2016. NWB Bank's leverage ratio stood at about 1.8%, in conformity with the revised definition proposed by the Basel Committee last year.

Employees

At year-end 2014, the number of employees, including the Managing Directors, had increased to 53 (48.5 FTEs), on account of a reinforcement of the Bank's Legal & Compliance Department and Internal Audit Department.

In view of the rapidly changing laws, rules and regulations and financial markets, the organisation employs highly qualified staff who are able to work with co-workers and external parties in a flexible and efficient manner, owing to their current specialist knowledge, readiness to change and awareness of their environment.

2014 was a challenging year for the organisation. Apart from its customary activities, preparations for the ECB's banking supervision, the implementation of the EMIR and the transition to the Single European Payment Area (SEPA), in particular, called for additional efforts.

In addition to developing its employees, NWB Bank clearly focuses on its organisational culture. Facilitating an in-house dialogue on specific themes, the Bank attempts to arrive at a joint opinion and shared awareness within management, which will eventually be experienced and promoted by all of the Bank's employees. Themes addressed during the in-house dialogues were "the Bank's culture", "the customer" and "internal communications".

This awareness of the desirable culture for the Bank is basically about how management and employees apply the Bank's values in practice. To examine how the desirable culture and the actual culture relate, a survey of the "soft controls" was initiated by the end of 2014. In early 2015, the survey's results confirmed the Bank's strong culture of integrity.

In 2014, the Managing Board consulted with the Employee Representative Body (ERP) on several occasions, in particular addressing the desire to harmonise the Bank's pension plans. Effective 2015, a new pension plan that better suits the current times applies to all of the Bank's employees.

Given its growing workforce, NWB Bank is now on the eve of a new type of employee participation, i.e. the Works Council. Preparations will be made for its establishment the coming year.

Corporate governance

Introduction

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 (originally also referred to as "the Tabaksblat Code") 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 plans, a one-tier board structure, the issuance of depositary receipts for shares, and institutional investors. Furthermore, as a bank of and for the public sector, 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 or their 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.

Dutch Banking Code

The Dutch Banking Code *(Code Banken)*, which has applied since 1 January 2010, represents a form of self-regulation initiated by the Dutch banking world in order to restore trust. It has set out principles with respect to supervisory and executive boards, risk management, audit and remuneration policies. The Code has been updated, given that many of its provisions have been incorporated into Dutch law. The new Dutch Banking Code entered info force on 1 January 2015. It applies to all Dutch-based banks. A newly to be formed Commission will monitor the Code, which contains the following elements.

- conducting business operations with restraint and integrity
- principles for executive and supervisory boards
- adequate risk policies
- adequate audit processes
- prudent, restrained and sustainable remuneration policies

The Banking Code, the Social Statute *(Maatschappelijk Statuut)* and the Code of Conduct *(Gedragsregels)* related to the banker's oath form part of the "Future-Oriented Banking" package *(het pakket Toekomstgericht Bankieren)*.

Social Statute

In its (2013) report, the Commission on the Structure of Dutch Banks (the "Wijffels Commission") laid the foundation for a further buttressing of Dutch banks. It called on banks to lay down, in a Social Statute, the role they wish to play in society. The Social Statute sets out the - desirable - position of the banking sector as a whole in society and the values that are shared across the sector. It lays down principles for a stable, serving and reliable sector.

Code of Conduct and the banker's oath

The banker's oath (including the related Code of Conduct and a disciplinary system) will have to be taken by all bank employees as of 1 April 2015. This obligation ensues from the Dutch Financial Markets (Amendment) Act of 2015 (Wijzigingswet financiële markten 2015), on the grounds of which the Dutch Financial Supervision Act (Wet op het financieel toezicht) (Wft) will be amended. The statutory obligation for executive and supervisory directors of financial institutions to take the banker's oath has applied since early 2013. NWB Bank's Managing and Supervisory Directors all took the oath or made the promise in 2013. In 2015, they will sign a declaration regarding disciplinary rules within the framework of the new Code of Conduct.

The banker's oath for employees will be a personal declaration, to be made to a manager and a witness. On the basis of the oath, employees will be subjected to the Code of Conduct and the disciplinary rules. The Code of Conduct will comprise the following elements.

- integrity and due care
- consideration of interests
- compliance
- secrecy
- responsibility and trust

During the past period, NWB Bank implemented "Future-Oriented Banking". In early 2015, the Regulations for the Managing Board, the Supervisory Board, the Audit and Risk Committee and the Remuneration and Appointment Committee were revised accordingly. In addition, preparations were made for the implementation of the banker's oath for employees. Furthermore, the Code of Conduct will be revised.

The following paragraphs address a number of aspects of the Banking Code, illustrating how the Code's principles have been embedded in the Bank's operations. They also address whether and, if so, how further steps were taken in the 2014 reporting period compared with 2013.

Comply-or-explain statement

NWB Bank fully acknowledges the significance of the Banking Code and complies with its provisions. There is, however, one exception concerning compliance with the Banking Code, which addresses the performance criteria for variable employee remuneration, more details of which are provided in the Overview of compliance with the principles of the Dutch Banking Code.

Conducting business operations with restraint and integrity

NWB Bank attaches great value to its reputation as a solid and respectable bank for the public sector. For this reason, checks and balances, as well as 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.

The Bank's Managing and Supervisory Directors are aware of the fact that they set an example for all of the Bank's employees. The Supervisory Board will annually assess how the Managing Directors lead by example.

Soft controls

The Managing Board fosters responsible conduct and a healthy culture, both at the Bank's senior management level and throughout the entire organisation. This year, the Internal Audit

Department (IAD) and the external auditor will examine NWB Bank's culture and conduct (the "soft controls"). Questionnaires have been distributed to all employees to measure the quality of the soft controls. NWB Bank uses the following soft-control elements: clarity, setting an example, feasibility, engagement, transparency, negotiability, accountability and sanctionability.

Putting the client's interests first

NWB Bank is a major player in financial service provision to the Dutch public sector. 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 with its business contacts. Accordingly, consciousness, engagement and reliability are NWB Bank's core values. Employees are expected to promote these core values in carrying out their duties.

The Bank lends high priority to account management aimed at borrowers and product development. It is central to the Bank's relationship 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 client sessions and participating in seminars as speakers. Moreover, the Bank is alert to market and other trends and to shifting customer needs, where possible responding to them by providing solutions, potentially including new products.

Compliance and integrity

The compliance role was designed to promote and supervise, or arrange for supervision of, compliance with laws and regulations, and with internal procedures and Code of Conduct that are relevant to the organisation's integrity and associated reputation.

The field of compliance comprises the following conduct-related risk categories: risks related to the conduct of individuals, customer-related risks, risks related to financial service activities and risks related to the organisation's conduct (for instance regarding cartel formation, the approval of new products, industry standards and remuneration structures).

In addition to these conduct-related risk categories, compliance includes satisfying other applicable laws and regulations. NWB Bank has assigned the compliance role to its Legal & Compliance Department. This role includes monitoring and ensuring compliance with financial supervision laws and regulations.

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.

The Supervisory Board

General

The Supervisory Board has drawn up Regulations governing the division of its duties, its working methods and its composition, among other topics. They also contain provisions governing its dealings with the Managing Board and the shareholders, and a passage on conflicts of interest. The Regulations implement the applicable provisions of the Capital Requirements Regulation (575/2013), the Financial Supervision Act, the Dutch Corporate Governance Code, Future-Oriented Banking and the Dutch Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014 *(Regeling beheerst beloningsbeleid Wft 2014)*, among others.

Committees

The Supervisory Board has set up an Audit and Risk Committee and a Remuneration and Appointment Committee. These committees, whose task it is to prepare the Supervisory Board's decision-making, work on the basis of Regulations adopted for them.

Profile

An overall profile has been drawn up to provide guidance on the composition of the Supervisory Board and the appointment of its members. The Supervisory Board aims to safeguard a diverse and balanced composition. The profile is in line with the Dutch Corporate Governance Code and the Dutch Banking Code. In early 2015, the profile was revised to reflect Future-Oriented Banking, among other matters. In addition to the overall profile, an individual profile is drawn up for each vacancy that arises on the Supervisory Board, which is in line with the overall profile and which candidates must meet.

The Managing Board

Appointment and composition

NWB Bank is managed by a Managing Board comprised of three members. The Annual General Meeting of Shareholders (AGM) appoints the Managing Board members for a term of four years on nominations by the Supervisory Board. The portfolios of operations for which the members of the Managing Board bear responsibility are disclosed on the Bank's website and on pages 5 and 6 of this Annual Report.

Regulations

The Managing Board's working methods have been laid down in Regulations, which set out such matters as the division of the Managing Board's duties, its working methods and its decision-making process. They also contain provisions governing conduct and culture, the Managing Board's dealings with and its way of providing information to the Supervisory Board, and a passage on remuneration policies and conflicting interests. In addition, the Regulations implement the applicable provisions of the Capital Requirements Regulation (575/2013), the Financial Supervision Act, the Dutch Corporate Governance Code, Future-Oriented Banking and the Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014, among others.

Lifelong learning

NWB Bank considers lifelong learning by Managing and Supervisory Directors of fundamental importance. In 2014, the Bank again organised a lifelong learning programme for its Supervisory and Managing Directors. Following Supervisory Board meetings, presentations were held for the Managing and Supervisory Directors about such subjects as Corporate Social Responsibility (CSR), Public-Private Partnerships (PPPs), hybrid capital and capital requirements. Besides group presentations, the Bank facilitates external training courses for individual Supervisory Directors, depending on their expertise and experience. The Managing Directors also attended various national and international conferences, workshops and seminars in such areas as liquidity risk management, advanced bank risk analysis, covered bonds and the European Market Infrastructure Regulation (EMIR).The effectiveness of these lifelong learning initiatives is assessed annually, both those for the Managing Directors and those for the Supervisory Directors.

Following their appointment, new members of the Supervisory Board and Managing Board must follow an induction programme addressing, at 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.

Risk policy

Risk appetite

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. The risk appetite also considers reputation risks and non-financial risks. 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.

Product approval process

Whenever new products are launched, new markets are entered or new services are offered, the Treasury, Public Finance, Risk Management, Legal & Compliance, Back Office, Finance & Control and ICT departments are involved in NWB Bank's product approval process. The Internal Audit Department (IAD) each year verifies the process' design, existence and effectiveness.

Internal control structure

In early 2014, the Bank's internal control structure processes were updated. Additionally, a risk and control framework was set up and linked to the process descriptions, enabling the Bank even better to monitor processes and safeguard controls.

Audit

The 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 an adequate organisational structure and risk management.

The Head of the IAD reports to the Chairman of the Managing Board and to the Chairman of the Audit and Risk Committee. The Head of the IAD attends the meetings of the Audit and Risk Committee, as does the external auditor. Twice yearly, tripartite meetings are held between the internal auditor, the external auditor and the authority exercising prudential supervision, i.e. the Dutch Central Bank (De Nederlandsche Bank, DNB). During those 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 represented in at least one of the meetings.

The IAD contributes to the Audit and Risk Committee's learning by delivering presentations and sharing information. The IAD may also render support in the Audit and Risk Committee's self-assessment.

Corporate social responsibility (CSR) is an integral part of NWB Bank's business operations. It includes transparent accounting for CSR performance.
The IAD renders support to the organisation as it introduces and reports on CSR, verifying whether all Global Reporting Initiative (GRI) aspects are included in the Bank's CSR reporting and ensuring that such reporting is based on the internal materiality analysis. The IAD verifies whether reporting is basically reliable, meaning that the performance made can be verified. It prepares a file which, in part, serves as a basis for the external auditor in auditing the CSR Report.

Remuneration policy

The remuneration policy with respect to both Managing Directors and employees is in conformity with the principles laid down in the Dutch Corporate Governance Code, the Dutch Banking Code and DNB's Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014. The remuneration policy is subject to the Supervisory Board's approval and to biannual review by the Remuneration and Appointment Committee.
The AGM adopts the remuneration policy with respect to the Managing Directors. Details of the Bank's remuneration policy are provided in the Remuneration Report included in this Annual Report.

Other corporate governance aspects

Articles of Association

During the AGM held on 23 April 2014, it was resolved to amend the Bank's Articles of Association. The amendment pertained to the Supervisory Board's composition. Reasons for the amendment include good governance, a reduction in the Board's membership and the requisite diversity and financial expertise among its members. The quality requirement laid down in the Articles of

Association of having two water board members on the Bank's Supervisory Board was dropped. Instead, the shareholding water boards were given the right to nominate candidates for the appointment of two Supervisory Directors. Candidates must meet the profile adopted by the Supervisory Board and may be from within or from outside the world of the water boards.

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 currently hold 81% of the voting rights on shares in the Bank's capital, while the State of the Netherlands holds 17% and provincial authorities hold 2%.

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 and the desire to prevent its causes from recurring. Further developments evolved in the area of remuneration policies, in addition to the new Dutch Banking Code and the Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014. The Remuneration Report will address these developments. Effective 1 August 2014, the Dutch Act Implementing the Capital Requirements Directive and Regulation (Implementatiewet richtlijn en verordening kapitaalvereisten) entered into force, restricting the number of executive and non-executive directorships at significant banks. Furthermore, effective 1 April 2015, the circle of persons to be subjected to suitability and reliability tests will be expanded, on the grounds of the Financial Supervision Act and a few other acts governing the financial markets (Financial Markets (Amendment) Act of 2015).

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

In-control statement

The Managing Board is of the view that, in the year under review, the internal risk controls were effective. This provides reasonable assurance that NWB Bank's financial reports contain no material misstatements.

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.

Corporate Social Responsibility

Foreword from the Managing Board

Entering into lasting relationships with stakeholders as a customer-focused, robust and sustainable finance partner and enabling them to fulfil their duties in Dutch society in the best possible manner. That is the vision of NWB Bank, one that is based on responsibility towards society, a strong financial position and efficient business operations. Banks perform a vital role in Dutch society and economic life. NWB Bank is no exception and recognises that its public utility function comes with special social responsibilities. NWB Bank seeks to contribute to a stable and robust financial sector that sets the parameters for an economy that serves mankind whilst causing the least possible harm to the environment. By providing finance to its customers on the most favourable terms possible, NWB Bank enables the public sector to keep the cost of fulfilling its duties in Dutch society and the cost of the social facilities in the Netherlands as low as possible.

In the Netherlands, NWB Bank is a major player in lending to local public authorities and institutions in the areas of social housing, healthcare, education and utilities. It can only fulfil its duties optimally if society, and its customers in particular, have confidence in its organisation and integrity. Accordingly, NWB Bank's core values are consciousness, engagement, reliability. The Bank expects its employees to promote these core values in carrying out their duties. To fund its operations, NWB Bank almost exclusively relies on the international money and capital markets. Besides high credit ratings, matters such as integrity and a transparent provision of information are of the essence in that regard, not only to investors, but also to our other stakeholders.

In 2014, NWB Bank launched its first 5-year €500 million benchmark Green Bond issue. With this issue, the Bank has continued to attract new investors and broaden the market span for green bonds. Not just traditional investment considerations such as safety of investment and risk-adjusted returns played a role for investors: 69% of the issue was bought by investors who purchased the bonds due to their interest in supporting climate-friendly projects within their investment mandates.

Proceeds from the Green Bond have been earmarked for lending to the Dutch water boards. The water boards are governmental bodies, employing around 11,000 people, responsible for flood protection, water management and water quality. Climate change adaption is an integrated part of their tasks. A large part of the future investments in flood control and water management will be executed under the umbrella of the Dutch "Delta Plan," a plan set up by the Dutch government to make the Dutch flood protection and water management schemes fit for the expected climate change in the coming decennia. Both heavier rainfall patterns as well as longer periods of drought are taken into consideration.

The initial proceeds from the Green Bond have been paid into an internal earmarked account. In 2014, the account was used to fund eligible projects that target:

(a) mitigation of climate change, being waterway management
(b) adaptation to climate change, meaning investments in climate-resilient growth (flood protection, other flood defences and pumping stations) or
(c) biodiversity projects related to water rather than directly to the climate (i.e. sanitation and dredging of waterbeds, water treatment, transport and cleaning of wastewater and disposal of sewage sludge

For more information on the Green Bond, reference is made to the NWB Bank **Green Bond Newsletter.** CICERO (Centre for International Climate and Environmental Research), an independent not-for-profit research institute has provided a **second opinion** on the Green Bond.

Apart from the innovative Green Bond issue, the Bank used its unique features to establish a special partnership with the European Investment Bank (EIB) to develop joint actions in supporting long-term investment in key public sector areas.

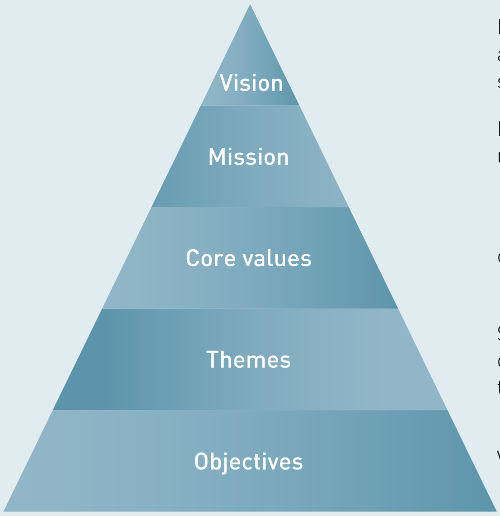
Effective 2013, NWB Bank linked its CSR policy to four themes fitting in with the Bank's core values consciousness, engagement, reliability. The themes selected naturally followed from and are consistent with the Bank's general objectives so that they contribute to the achievement of those objectives. Being a public-sector bank, NWB Bank's interests and values differ from those of strictly commercial parties. Those differences are reflected in the themes:

1. **sharing financial expertise with the public sector**
2. **providing finance in a sustainable and committed way**
3. **operating in a sustainable and socially relevant way**
4. **acting with integrity and transparency**

These themes formulated by NWB Bank take into account the various stakeholders' interests, which have been duly weighed. Measurable objectives have been linked to them, on which the Bank reports annually. In so doing, NWB Bank seeks to account for its social performance in addition to accounting for its financial performance.

As in 2013, NWB Bank presented the 2014 CSR Award to a party in one of its customer groups who developed or completed an innovative, creative or energetic project in the field of Corporate Social Responsibility (CSR). In presenting the CSR Award, which carries a cash prize of €25,000, NWB Bank seeks to foster the development of socially responsible projects within the Dutch public sector and give such projects a platform.

NWB Bank applies high standards in the field of sustainable and social responsibility and is committed to achieving its CSR goals. NWB acknowledges the importance of increased transparency and rendering account to the outside world. In 2014, the Bank again participated in the Transparency Benchmark, an initiative of the Dutch Ministry of Economic Affairs and the Dutch Professional Organisation of Accountants (Nederlandse Beroepsorganisatie van Accountants, NBA). The Transparency Benchmark is based on a qualitative and quantitative study on CSR reporting features in the annual reports of large companies and state-owned enterprises in the Netherlands. The criteria were tightened this year,



Entering into lasting relationships with stakeholders as a customer-focused, robust and sustainable finance partner and enabling them to fulfil their duties in Dutch society in the best possible manner.

Enriching our objectives as a public-sector bank with a proactive approach in order to make a positive impact socially, environmentally and economically.

consciousness, engagement, reliability.

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

Verifiable annual objectives for each theme.

but NWB Bank managed to stay in the lead group with a ranking of 28th (2013: 21st) out of a total of 450 participants. This means that the objective of a position in the top 10% of the Transparency Benchmark was met this year. NWB Bank reported at application level "Core" of the Global Reporting Initiative (GRI) in the year under review. The Bank's ambition is to continue reporting with GRI support and to optimise the monitoring of and planning for the related performance indicators.

The following sections set out NWB Bank's management approach to CSR and the Bank's CSR themes and CSR objectives. Dilemmas arising from a number of the objectives are addressed in subsequent sections. Furthermore, attention is paid to the dialogue with stakeholders. This CSR Chapter concludes with a section on the 2014 CSR Award, with a focus on the winning project and numbers 2 and 3. Other relevant subjects, such as governance, compliance, remuneration policy, HRM, and risk management are addressed elsewhere in this Annual Report and are not discussed separately in this CSR Chapter.

Management approach

NWB Bank distinguishes four themes relating to CSR. The themes in question have been defined by the Managing Board after a dialogue with the stakeholders. Effective last year, the Bank reports on these CSR themes annually in the Annual Report.

NWB Bank has set up a CSR Committee in which staff of various departments, as well as two Managing Directors and the CSR Coordinator, participate. The CSR Committee reports to the Managing Board. CSR subjects are also expressly discussed in meetings of the Audit and Risk Committee. Each member of the CSR Committee carries operational co-responsibility for his or her specific task in the themes, objectives and associated reporting. The Managing Board bears overall responsibility for the Bank's CSR policy.

NWB Bank has adopted its CSR management approach and selected its GRI performance indicators in the area of sustainability with due consideration to its relatively small office-based organisation and the duties it fulfils as a financial service provider in the public sector. This approach provides the best match with the Bank's compact organisational structure and is expected to do so going forward. The CSR Committee has selected themes that are material to the Bank from a stakeholder's perspective. After having discussed those themes, the CSR Committee submits them to the Managing Board for approval.

NWB Bank's CSR themes and objectives

The themes the Bank has selected on the basis of its performance targets and minimum requirements are addressed in more detail below, by describing the targets and objectives set. Underpinning the themes is the Bank's CSR policy, which is set out on NWB Bank's website, www.nwbbank.com. That policy also entails a description of the qualitative objectives for the next three to five years. Those objectives are summarised in the table below and are detailed below within the context of the various themes.

The table below provides a list of objectives for 2014 and 2015 and the achievements in 2014 and previous years, broken down – within the four themes - according to the associated GRI performance indicators. The themes formulated by NWB Bank take into account the various stakeholders' interests, which have been duly weighed. Measurable objectives have been linked to them, on which the Bank reports annually and which the CSR Committee discusses and monitors semi-annually. The monitoring process led to subjects like absenteeism, training, conduct and corporate culture, and traineeships being placed on the agendas of the MT and the Management Consultative Meetings. The performance indicators are explained in more detail in the GRI-table.

Major CSR performance targets (PTs) and minimum requirements (MRs) have been defined for the next three to five years, broken down by theme. The performance targets are measurable and can be influenced, and are therefore a challenge for the Bank. The minimum requirements have been adopted with reference to applicable legislation, governance codes and internal code of conduct.

Achieved 2014	Objective 2014	Objective 2015	Long-term objective	Description
Theme 1: Sharing financial expertise with the public sector				
Keeping employees' knowledge of finance and trends up to date – MR				
all	all	all		Attending annual training sessions by Front Office
Bridging the knowledge gap between the financial markets and the public sector (by hosting events, providing financial markets overviews, performing treasury scans, etc.) – PT				
3	3	3		Number of events hosted for specific target groups
52	52	52		Sending out Financial Markets Overviews each week
all	all	all		Performing Treasury scan on request
all	all	all		Approaching customers proactively in the event of new finance opportunities
Theme 2: Providing finance in a sustainable and committed way				
Selecting and dovetailing products and services to a customer's needs and their suitability for that customer, also taking account of the specifics of the sector and the views of the competent supervisory authority – MR				
yes	yes	yes		Coordinating products offered (internally/externally)
Putting customers' interests first – MR				
yes	yes	yes		Generally cooperating in requests for early repayment
2	none	none		Number of complaints filed
all	all	all		Issuing rates for loans under 1m
Sustainable and responsible funding and investments with due regard to CSR exclusion criteria - PT;				
yes	yes	yes		Complying with/reviewing exclusion criteria (sample)
Promoting CSR projects to the Bank's customers (CSR Award, Green Bonds). The objective is for the Bank to link a lending volume of €500m to Green Bonds every year up to 2020 - PT				
€500 m			€500 m	Finance volume related to Green Bond (2020)
yes	yes	yes		Presenting annual CSR Award

Achieved 2014	Objective 2014	Objective 2015	Long-term objective	Description
Theme 3: Operating in a sustainable and socially relevant way				
Sustainable procurement promotes sustainable economic growth and innovation and helps us achieve our environmental and social objectives (e.g. operationalisation). The objective is to ensure by 2017 that all purchases of products and services are in compliance with the PIANOo procurement criteria - PT;				
yes	yes	yes		Applying PIANOo procurement criteria
			100%	Sustainable procurement fully achieved in 2017
Fostering a healthy workplace and healthy personal development - MR;				
2	≤ 3	≤ 3		% Regular absenteeism rate
3,672	2,950	2,950		Training costs per employee in Euros
none	none	none		Number of incidents of discrimination reported
all	all	all		Number of employees subject to performance and career development plans
100	100	100		Percentage of employees with pensions covered under NWB Bank pension plan
A more conscious use of assets and vehicles, taking into account the environment - MR;				
1,706	1,800	1,800		Estimated paper use (in kgs)
Environmentally friendly and active transportation for employees - MR;				
30%	≥ 25%	≥ 25%		Bicycle plan
254	≤ 230	≤ 230		Carbon emissions caused by operations
Offering traineeships to pupils from secondary vocational and higher professional schools, as well as university students. The objective is to make available 2 trainee posts each year until 2020 - PT;				
2	≥ 2	≥ 2	2	Traineeships
Increased social engagement by the organisation and the employees. A workshop will be held to explore options to involve employees in CSR issues (e.g. a staff outing to a water purification plant or releasing staff from duty to do some volunteers' work). This objective is to be given shape by year-end 2016 - PT;				
			60%	Active staff involvement in CSR (of the employees)
2	≥ 2	≥ 2		Participating in social projects
Theme 4: Acting with integrity and transparency				
Awareness among staff of what integrity entails - MR;				
-	all	all		Number of employees who took anti-corruption/integrity training (biannual)
all	all	all		Code of Conduct for employees
The Bank wants to hold its own with the best of its peers in the Transparency Benchmark. The objective is to maintain the top 10% position in the Transparency Benchmark until 2020 - PT.				
yes	yes	yes	top 10%	Top 10% of Transparency Benchmark until 2020
Promoting optimal transparency on processes, risks and rates towards customers and other stakeholders - MR;				
yes	yes	yes		Rates available via interest calculator on website
yes	yes	yes		Product risks described on website
4	≥ 2	≥ 2		Number of ERB meetings
Screening of new employees - MR;				
all	all	all		PES for new employees

In support of the choices made by NWB Bank, the opinions of a number of experts have been added in this Chapter. We refer to the article on the NWB Fonds, the interviews with winners of the CSR Award, and the quote by CICERO about the Green Bond.

Theme 1: Sharing financial expertise with the public sector

A public-sector bank, NWB Bank shares its experience and knowledge of financial trends and products with the Dutch public sector.

Bridging the knowledge gap between the financial markets and the public sector

NWB Bank uses various channels to communicate with its customers and other stakeholders. Firstly, the Bank sends out weekly Financial Markets Overviews, providing insight into current and historical market movements, drivers of market interest rates, and funding rates. Enabling customers to monitor market developments and assess risks, they can anticipate developments immediately when market conditions change.

The Bank also hosts annual events, tailored to its customer segments, at which the workings of the financial markets and related current developments are explained and specific topics are addressed. These educational events aim to enhance customers' financial knowledge and help improve their financial processes. In hosting these events, NWB Bank bridges the knowledge gap between the public sector and the financial community, which ties in with the Bank's duty of care and its policy aimed at putting customers' interests first in its provision of services.

Furthermore, the Bank's account managers attend seminars and periodically call on customers and other stakeholders to discuss current developments and address specific needs. This allows current and potential customers to discuss financial issues and finance requirements with NWB Bank, have a treasury scan performed of their loans portfolios or learn about new finance instruments available in the market. CSR is always addressed during customer visits, as the Bank encourages its customers to devote heightened attention to the subject.

Bridging the knowledge gap between the financial markets and the public sector is an on-going process. At this point, the CSR policy's objective has been achieved by means of the activities described above.

Keeping employees' knowledge of finance and trends up to date

At least once yearly, each Front Office employee attends a training session and/or a relevant conference. Financial and other developments are monitored by the employees reading newspapers and trade journals. This ensures that employees are able to anticipate and face developments that are of relevance to the Bank and its customers, so that NWB Bank can respond to the need for professional financial guidance among its borrowers. The Bank's general training policy can be consulted on page 46.

Theme 2: Providing finance in a sustainable and committed way

A public-sector bank, NWB Bank subjects funding and investments to internal requirements in order to safeguard its reputation and its relationships with stakeholders in the long term.

Customers' interests are key in lending transactions
NWB Bank can always immediately provide its customers with quotes for money market and capital market loans. When issuing quotes, no difference is made between new loans and resets of interest rates or spreads. The Bank also issues quotes for loans with principal amounts below €1 million, so that it can also serve customers with more modest financing needs.

As a bank of and for Dutch local public authorities, it is important that NWB Bank performs a portal function for its regular public-sector borrowers. As part of its loans policy, the Bank issues quotes in response to loan applications under all circumstances, having noticed that its customers value this readiness to issue quotes.

In addition, NWB Bank devotes all the attention to customers they need, irrespective of their size or that of their loans. For instance, the Bank always responds to requests for face-to-face meetings and is always prepared to consider bespoke arrangements. As a rule, the Bank is willing to cooperate in early repayments, either in whole or in full, without charging early repayment penalties except for a settlement price at market value.

Loan restructuring (including taking over derivatives) enables NWB Bank to live up to its role in society. Restructuring solutions come into play to reduce interest rate risks or help reduce a customer's derivatives portfolio with a commercial bank.

Sustainable and responsible funding and investments
NWB Bank applies exclusion criteria to its funding and investments. Those criteria concern not only products and services but also business processes. The application of the criteria is monitored by analysing annual reports. The exclusion criteria form an integral part of the Bank's CSR policy, which can be found on **www.nwbbank.com**.

As concerns the financing of Public-Private Partnership (PPP) projects, NWB Bank gives effect to both its exclusion criteria and the Equator Principles. Those international principles, adopted by a great number of financial institutions, provide a risk management framework for determining, assessing and monitoring environmental and social risks in projects. The NWB Bank applies the Equator Principles when evaluating the social and environmental risks of PPP financing. By adhering to that rule, NWB Bank ensures both before and pending a PPP funding process that the customer complies with the minimum CSR requirements. No PPP projects were financed in 2014.

Product suitability
NWB Bank selects and dovetails its products and services to a customer's needs and their suitability for that customer, also taking account of the specifics of the sector and the views of the competent supervisory authority. New financial instruments undergo the Bank's internal product approval process before being offered. This process ensures that products are tested on their suitability for a specific customer group, among other criteria.

The internal product approval process is one of the subjects addressed in the Dutch Banking Code (see: "Corporate Governance") and is explained in more detail in the GRI Table. Since it is a key feature in the Bank's product responsibility, the process involves all of the Bank's relevant departments.

Theme 3: Operating in a sustainable and socially relevant way

As public-sector bank, NWB Bank believes it is important that it is seen to lead by example in terms of its organisation and the environment.

Fostering the development of socially responsible projects

NWB Bank seeks to encourage its customers to invest in socially responsible projects. This subject is raised during each customer visit and is also given attention at events hosted by the Bank for business relations. The Bank has two further initiatives in this area: the NWB Fonds and the CSR Award.

NWB Bank has presented its annual **CSR Award** since 2013. The 2013 winner was given a cash prize and a platform for publicising its project to a larger audience.

NWB Fonds embodies the type of long-term corporate social responsibility NWB Bank has opted to support. Established in 2006, the fund serves as a source of finance of and for water boards in shaping their international partnerships. It offers them the financial means to contribute to solutions to global water issues in developing countries, based on their core tasks and core values.

The fund's initial capital in 2007 was €4 million. The amount was increased several times in subsequent years to reach €20.5 million in 2014 after yet another increase of €0.5 million. Intentions are for the fund to ultimately grow to €25 million. The fund's capital was entirely provided by NWB Bank.

A topical explanation of NWB Fonds's activities by Paul Langeveld, its Program Manager, can be found elsewhere in this Annual Report. The **explanation** forms part of this CSR report.

Sustainable procurement

When purchasing facilities-related products and services, the Bank aims to consistently apply the public procurement criteria drawn up by PIANOo, the Dutch Public Procurement Expertise Centre. When renegotiating existing contracts and concluding new ones, care is taken to ensure that the contracts satisfy the PIANOo criteria wherever possible. When buying items of everyday use, sustainability aspects are taken into account, with the PIANOo procurement criteria being the standard. By way of comparison: as of 1 January 2015, all government authorities are committed to making 100% sustainable purchases, from catering and ICT to roads, public transport, electrical cars and buildings. NWB Bank aims to achieve that goal as of 2017.

In undertaking sustainable procurement, the Bank endeavours to make a contribution to better social conditions in production chains (such as cleaning). The social aspects of the purchase criteria focus on improving labour conditions throughout the chains. By including the criteria in its tender documents, NWB Bank encourages observance of internationally accepted labour standards and respect for human rights.

Preserving the environment

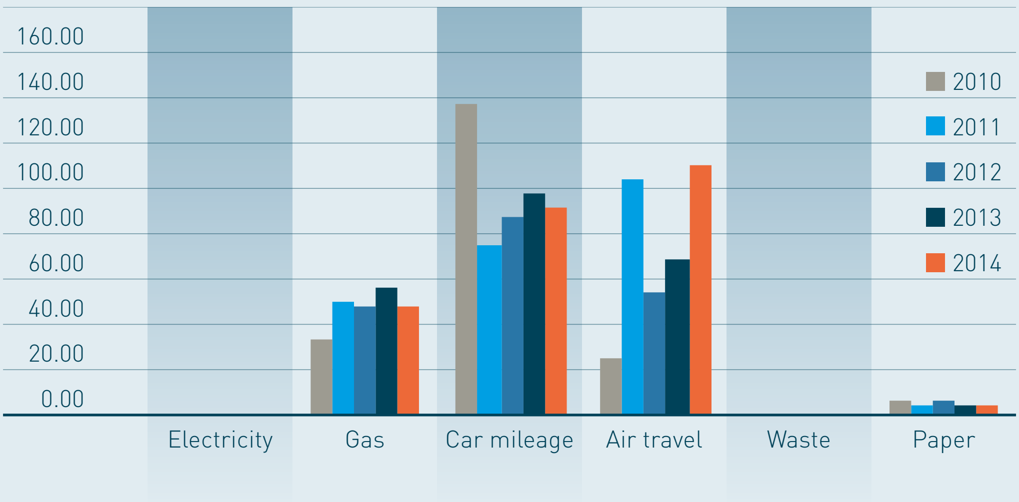
We used an estimated 1,706 kgs of paper in 2014 (2013: 1,732 kgs), representing a decrease in absolute terms of approximately 2% and, adjusted for the higher headcount, as much as 5%. The carbon emission resulting from the use of paper (5 tonnes) has been offset. In 2015, we will again seek to reduce paper use per employee by further digitising our documents.

In 2014, the total carbon emission from the Bank's company cars amounted to 93 tonnes (2013: 99 tonnes), a decrease of almost 6%.

Our gross carbon footprint, of which the office building and travel are major components, was again established for 2014. The Bank's total carbon emissions in 2014 were an estimated 254 tonnes (2013: 232 tonnes). The chart below provides a breakdown by main category. The gross carbon footprint was calculated on the basis of estimates. Further details are provided in the GRI Table on www.nwbbank.com. NWB Bank offsets all carbon emissions via the Climate Neutral Group, an organisation striving towards a 100% climate neutral world. Offsetting carbon emissions via the Climate Neutral Group reduces the Bank's negative impact on the climate to zero in all relevant categories, i.e. for all relevant greenhouse gases translated into carbon equivalents. The project selection criteria included the impact of the projects on the local population and the region in terms of factors such as employment, transfer of knowledge, improvements in healthcare, economic growth, and local environmental improvements.

Carbon emissions caused by the processing of company waste, with paper and residual waste being separated, were also offset via the Climate Neutral Group.

Carbon footprint (in tonnes)



As in previous years, NWB Bank exclusively used electricity from renewable energy sources ("green electricity") in 2014. Gas consumption was nearly 10% down in 2014, at 28,360 m^3 (2013: 31,251 m^3), caused primarily by the mild winter of 2014. The gas supplier provided a carbon offset for gas.

Carbon emissions associated with overseas air travel were offset for the whole of 2014. Total carbon emissions caused by air travel amounted to 111 tonnes in 2014 (2013: 70 tonnes). The increase was mainly due to the transition to a new European financial supervision system, the emergence of new funding markets and the introduction of PPP financing, all of which required more international consultation.

Corporate culture, development and trainee posts

The quick succession of new laws and developments in the financial markets demand a base of well-equipped employees whose up-to-date knowledge, accepting disposition towards change, and awareness of what is going on around them allows them to communicate smoothly and efficiently with co-workers and external parties whilst at the same time meeting the inevitable, occasionally tight deadlines frequently caused by external factors, which requires employees to give even more.

Accordingly, the Bank attaches great importance to having a training budget, aiming to make at least €2,950 available per employee annually. Department managers monitor employee development at an individual level, giving due consideration to the Bank's objectives. Employees also have their own responsibility where their employability is concerned.

In 2014, an average amount of €3,672 per employee was spent on training (including in-company training).

	2010	**2011**	**2012**	**2013**	**2014**
Average costs of training	€2,500	€2,950	€2,188	€4,147	€3,672

A number of in-company training sessions were organised in 2014, including risk management, English language, security awareness, emergency response training, central clearing, and ICT courses.

NWB Bank also periodically makes use of external experts who can contribute to specific projects, as well as share their experience and knowledge with the Bank's employees. These practice-based learning opportunities are of great educational value.

The Bank not only devotes attention to the development of individual employees, but also focuses on the corporate culture within its organisation. NWB Bank organises specific dinners to that end during which the Bank's management zooms in on certain themes, such as Corporate Culture Within the Bank, Our Customers, and Internal Communications. In doing so, the Bank's endeavour is to make employees aware of a specific theme and form a common opinion in order to spread awareness throughout the organisation.

Apart from awareness and corporate culture, a decisive factor is, of course, how managers and employees apply the Bank's standards and values in practice and what kind of behaviour they should engage in to that effect. To define how the intended corporate culture relates to the actual corporate culture, a study into soft controls was set up late 2014. The situation is assessed on the basis of "The

Seven Elements of an Ethical Culture" as published by the the Dutch Central Bank (De Nederlandsche Bank N.V., DNB). The results of the study are expected to be released early 2015.

NWB Bank makes trainee posts available to pupils from secondary vocational and higher professional schools, as well as university students. Upon request, it also facilitates work experience placements for pre-university pupils. Given its relatively small size, NWB Bank aims to make two trainee posts available each year. In 2014, it supervised two trainees (a pre-university pupil and a post-graduate from a higher professional school).

Working flexibly

It is important for employees of the Bank to find a proper balance between work and private life. Happy people often perform better, and facilitating flexible working hours and remote access to company equipment contributes to the contentment of employees whilst at the same time creating continuity within the organisation. The Bank also makes use of a multidisciplinary stand-by duty system. Sixteen of the Bank's employees work on a part-time basis, and employees can oftentimes use a laptop that allows remote access to most of the Bank's systems.

Diversity and inclusiveness

As required by law and the collective bargaining agreements in place, NWB Bank approaches its employees respectfully and with due care, without in any way discriminating. The Bank's anti-harassment policy document defines what conduct is considered appropriate within the organisation. Job applicants are treated correctly during recruitment and selection procedures and preference is given to the candidate who complements the existing workforce.

There has been virtually no staff turnover in the past few years, so that a further increase in diversity will not be achieved soon and a further hiring of people with a weak position in the labour market will also be difficult. As it is, in 2014, NWB Bank again worked with organisations that assist and coach people who have impairments in terms of participation in the labour market.

As provided in the Dutch Management and Supervision (Public Companies) Act (Wet bestuur en toezicht) the Bank strives towards a minimum gender representation on its Supervisory Board and Managing Board of 30% men and 30% women. At this point, 1 woman and 2 men serve on the Bank's Managing Board and 2 women and 4 men serve on the Supervisory Board.

With the latest addition of two female full-time employees, the gender representation in the Bank's workforce is 58% men and 42% women. At year-end 2014, NWB Bank had a headcount of 53.

	2013	2014
Number of employees	51 (46,2 FTEs)	53 (48,5 FTEs)
Number of men	31 (30,8 FTEs)	31 (30,7 FTEs)
Number of women	20 (15,4 FTEs)	22 (17,9 FTEs)

	2013 number of employees	2013 %	2014 number of employees	2014 %
Employees aged 60 - 70	1	2.0	1	1.9
Employees aged 50 - 60	8	15.7	11	20.8
Employees aged 40 - 50	27	52.9	24	45.3
Employees aged 30 - 40	12	23.5	14	26.4
Employees aged 20 - 30	3	5.9	3	5.6

Environmentally- friendly and active transport for employees

More than half of the 16 company cars have an "A" energy label. The Bank's current cars that do not have such an energy label will be replaced by more fuel efficient models. Carbon emissions caused by the fuel consumption of company cars was offset. In 2014, three employees opted for compensation in lieu of a company car. In addition, employees made more use of public transport for business travel in the year under review.

Furthermore, the Bank operates a bicycle plan that makes it attractive for employees to commute using a bicycle. In 2014, 30% (16) of all employees (2013: 15) participated in the plan.

Health and work environment

In 2014, NWB Bank offered its employees health checks on a voluntary basis – 67% of the employees participated. The health checks comprised a number of physical measurements and a questionnaire about lifestyle, and were concluded with individual interviews to discuss questions and specific health issues.

The overall absenteeism rate for 2014 was 1.8% (2013: 1.3%), which again falls within the Bank's targets. Nonetheless, brief absenteeism (up to 8 days) increased to 1.6% (2013: 1%). On the other hand, medium-length absenteeism (up to 43 days) dropped to 0.2% (2013: 0.3%). Again, as in 2013, there was no prolonged absenteeism (43 days or more) in the year under review and there were no physical accidents in the workplace.

The matter of absenteeism was also discussed in a meeting of the management team.

	2013	2014
Total absenteeism	1.30%	1.81%
Brief absenteeism up to 7 days	1.00%	1.59%
Medium-length absenteeism up to 42 days	0.30%	0.22%

NWB Bank's workstations have been set up ergonomically correctly, as in previous years. Therefore, no risk identification and assessment is performed and tested.

Complaints procedure

The Bank's customers may submit complaints under the General Terms and Conditions. In 2014, to improve its complaints system, the Bank also introduced a formal complaints procedure so as to establish a proper foundation within the Bank's organisation for a careful consideration of all complaints. In 2014, a few complaints were received about payment transactions handled by NWB Bank for its customers. The complaints concerned the transition to SEPA (Single European Payment Area). Although NWB Bank makes use of a third party's services to effectively handle the transactions, the Bank remains responsible for the quality of those services. In consultation with the clients and the service provider, the processes and systems were improved where necessary.

The Bank also operates a whistle blowing procedure, which enables employees to report alleged irregularities of a general, operational or financial nature at NWB Bank, on an anonymous basis if needed, without jeopardising their legal position.

NWB Bank invites its stakeholders to submit suggestions they may have with respect to the Bank's CSR policy and to share any other comments on this issue. Effective 2014, the Bank has opened a dedicated email address for that purpose: mvo@nwbbank.com.

Raising awareness in society of such themes as "money"

In 2014, acting on its CSR policy views, the Bank again participated in the project entitled "Money. Just imagine you had it!" (Geld. Je zult het maar hebben!), which aims to educate pupils in secondary education about how to handle their financial affairs in a sensible way. NWB Bank being a small organisation, participation in the project required extra efforts from the employees involved. It was gratifying to see their active participation and enthusiasm.

Project "Money. Just imagine you had it!"

Teaching youngsters how to deal wisely with money, enabling them to be strong and healthy finance-wise at a later age. This is what the "Money. Just imagine you had it!" project is about. Aimed at pupils in lower secondary vocational education, the creative and interactive programme was set up by NIBC Bank, the City of The Hague, and Stichting Safe School in 2010. Its objective is to educate 14 and 15-year-old pupils in lower secondary vocational education in the Hague region about how to handle their financial affairs in a sensible way, focusing on their attitude and conduct, in order to enhance their ability to arrange their financial affairs independently at the youngest possible age. Pupils' parents are actively engaged in the project, which means expectations are that the subject of money will be given more attention and be discussed more within a family setting.
NWB Bank joined the project in 2011, when 3 employees participated; 5 employees participated in 2012, 4 in 2013, and 3 in 2014. The Bank also made a contribution of €7,018 towards the project costs this year.

Project "Money Week" and "The Classroom Bank"

NWB Bank also actively sponsored the national Money Week in 2014 by making a financial contribution of €9,075 and by having 13 of its employees giving 16 guest lessons at 8 schools. The national Money Week, held for the fourth time in 2014, is an initiative of the Dutch Money Wise (Wijzer in geldzaken) platform, whose main sponsors are the Dutch Central Bank (De Nederlandsche Bank, DNB) the Dutch Ministry of Finance, the Dutch Banking Association (Nederlandse Vereniging van Banken) and the Dutch Association of Insurers (Verbond van Verzekeraars).

The purpose is to teach primary school pupils in the three highest grades how to deal wisely with money. In 2014, a total of 2,000 guest teachers gave 4,000 guest lessons at 1,550 schools, teaching more than 140,000 primary school pupils. One of the 80 activities organised in the national Money Week is The Classroom Bank. The classroom lessons centre around the Cash Quiz, a game developed by the Dutch Banking Association to make financial education more attractive and more fun. The Cash Quiz touches on issues relevant to the theme of "how to deal wisely with money." The kick-off was given at De Brede School in Amsterdam South-East (a primary school consisting of As-Soeffah, Bijlmerhorst, and De Polsstok) on Monday, 10 March. Sander Dekker, the State Secretary for Education and Chris Buijink, President of the Dutch Banking Association, opened the event with a joint guest lesson.

Sponsorship

Besides its sponsoring of the NWB Fonds (2014: €500,000) and the CSR Award (2014: €25,000), the Bank also sponsors projects in the areas of water, cultural heritage and history. Sponsorship funds totalled €43,666 in 2014 (2013: €63,530). The decrease in sponsorship funds was due to the declining number of sponsorship applications. Of the 16 applications filed, 14 were granted. The applications that were rejected lacked the necessary connecting factors with the sponsorship objectives.

- Water: A contribution was made to the Dutch Water Museum for an upgrade of its audiovisual equipment in the Water Cinema;
- Cultural heritage: A contribution was made towards the purchase of a 17th century painting showing dyke repair work.
- History: The Bank contributed to the publication of a book about Dutch rivers from 1700 to now.

Theme 4: Acting with Integrity and Transparency

Being reliable and acting transparently are imperative for a public-sector bank. These same standards must be applied in communications with employees.

Transparent working methods and rates

NWB Bank explains its working methods to customers and stakeholders, both individually and during group presentations, to provide them with insight into the backgrounds to the Bank's actions and the associated costs incurred. The Bank acts transparently with respect to the costs involved in, and the calculations underlying, structured products, e.g. when taking over derivatives or restructuring loans. Processes that must be followed are explained upfront, allowing all parties involved to know what is expected of them. If so wished, the Bank always cooperates in dry runs, during which processes are completed in advance to minimise the likelihood of uncertainties and unpleasant surprises.

Indicative rates may be requested via the Bank's website or by telephone. The Bank's weekly Financial Markets Overviews also list the indicative rates. These rates enable customers to monitor market trends and base their investment decisions on correct interest cost assumptions.

Internal transparency

NWB Bank strives to maintain an open dialogue among its employees, which means, in practical terms, that employees are encouraged to exchange knowledge and information as much as possible.

In its effort to optimise internal transparency, the Bank has placed an interim evaluation of the annual departmental plans on the MT's agenda for discussion during their meeting schedule. Furthermore, an annual review of the description of AO/IC procedures (Administrative Organisation and Internal Control) will be made an integral part of the in-control statements.

The consultations between the Employee Representative Body (ERB) and the Bank are an expression of the Bank's endeavour to engage employees. In the past year, the Managing Board has had several meetings with the ERB at which at least one member of the Supervisory Board was present also. Subjects discussed included the general affairs of the organisation and, in particular, a harmonisation of the pension schemes. A decision to apply the average salary scheme to all employees as of 1 January 2015 was adopted with a big majority.

As the workforce is growing, the Bank is now on the eve of establishing a new form of employee participation: a Works Council. In 2015, preparations will be made to set up a Works Council to replace the ERB.

Moreover, in 2015, an employee satisfaction survey will be conducted in collaboration with the ERB (or the Works Council). The survey should provide NWB Bank with insight into the views of its employees with respect to working at the Bank. Employee satisfaction surveys are held once every three years.

Culture, integrity of employees
NWB Bank is a major player in the provision of financial services to the public sector. It can fulfil its duties well only if society, and its customers in particular, are confident about the Bank's organisation and the integrity of its dealings. NWB Bank is a participant in the Dutch Securities Institute (DSI), a foundation that seeks to foster, monitor and test expertise and integrity among financial service providers. The Bank's employees who work in commercial or integrity-sensitive positions have been asked to apply for DSI registration. Eight employees were registered in 2014.

As part of its selection and recruitment procedures, the Bank assures itself of the integrity of new recruits, an important tool for which is pre-employment screening (PES). Such screening forms part of the employment contracts. The Bank is obliged to screen its employees under the Dutch Financial Supervision Act (Wet financieel toezicht). However, whilst the Act merely requires a screening of employees who are to perform a financial position, NWB Bank requires all employees, irrespective of their jobs, to undergo a PES. The Bank calls upon the DSI to perform the screening, which checks a candidate's proof of identity, certificate of good conduct, his or her own integrity statement, the accuracy of employer references for the past five years, relevant diplomas and past bankruptcies. The Bank may also request additional references from previous employers. The issue of integrity in all its dimensions is discussed in detail in the job interviews and salary negotiations with the candidates.

In compliance with the Dutch Banking Code, all individual members of the Managing Board have signed a moral and ethical conduct declaration and have taken the banker's oath (see "Corporate governance"). The content of that declaration has been translated into a Code of Conduct for the Bank's employees. The Code of Conduct has been signed by all employees and forms part of their employment contracts.

The Dutch Financial Supervision Act has been amended and now provides for an extended banker's oath that is to be signed by all employees in 2015. The banker's oath imposes on the employees certain rules of conduct. Non-compliance with those rules lead to disciplinary action. Furthermore, a Social Statute setting out generally accepted values, as well as a new Code of Conduct, will be introduced in 2015. To safeguard our employees' privacy, we do not report on the outcome of pre-employment screening or on the Insider Regulation or the Code of Conduct. Any reports filed are handled by the Compliance Officer.

The Bank organises compliance training sessions at least biannually – and, in addition, as often as is considered necessary - addressing a range of subjects, from internal procedures (Code of Conduct, Insider Regulation, Regulation on Unwanted Behaviour in the Workplace, Information Security Protocol) to external legislation. A security awareness training course was set up in 2014. Most of the employees followed the course.

The Bank attaches value not only to security awareness, but also to maintaining an appropriate corporate culture. A decisive factor in that regard is how managers and employees apply the Bank's standards and values in practice and what kind of behaviour they should engage in to that effect. To define how the intended corporate culture relates to the actual culture, a study into soft controls was set up late 2014. The situation is assessed on the basis of "The Seven Elements of an Ethical Culture" as published by DNB. The results of the study are expected to be released early 2015.

Another aspect demonstrating our commitment to society is the Bank's effort to combat corruption and bribery. In 2014, no case of corruption or bribery was reported internally. NWB Bank has implemented various preventive measures, the most important of which are PES, the Insider Regulation and the Code of Conduct.

The Bank wants to hold its own among the best of its peers in terms of transparency.

NWB Bank participates in the Dutch Ministry of Economic Affairs' Transparency Benchmark to measure itself against similar institutions. The Bank aims to secure a place in the top 10% on the Transparency Benchmark. In the year under review, the Bank achieved its aim: it was rated 28th (2013: 21st) out of 450 participating companies. The table below shows how NWB Bank compares to other financial institutions.

Participant in Transparency Benchmark	**Score in 2014**
De Nederlandsche Bank N.V.	150
ABN Amro Group N.V.	155
Nederlandse Waterschapsbank N.V.	167
Rabobank	168
ING Groep	170
Bank Nederlandse Gemeenten N.V.	184

Dilemmas

This Section contains a number of issues in respect of which the Bank has weighed the various available options to solve CSR issues.

Generic financing

In the Bank's systematic application of CSR-related exclusion criteria and its policy of fostering responsible investments, generic financing is a dilemma. Oftentimes, the intended purpose of the funds lent is to finance cash deficits or refinance existing loans, but the actual purpose may not even still be unknown at the time of granting so that there is no specific project that can be tested against CSR aspects.

Derivatives

NWB Bank does not enter into swaps or options with its customers. Where housing corporations and healthcare institutions are concerned, the Bank refrains from doing so because such transactions are not covered by the relevant guarantee funds. Furthermore, the Bank believes such instruments are not suitable for every customer, which means they cannot be generally provided. At the same time, there is the fact that most customers are bound by the 'Ruddo rules' (rules on lending and entering into derivates transactions with local public authorities) or the 'policy rules on derivatives for housing corporations' when selecting a derivative counterparty. Both sets of rules require of counterparties that they meet a minimum rating. Since an ever smaller number of financial institutions meet the minimum rating requirements, customers ask the Bank from time to time whether it would be willing to act as a counterparty for derivatives. This presents NWB Bank with a dilemma, as it seeks to assist its customers at all times, while also adhering to its internal policies.

New products

When addressing specific customers' needs, situations may arise in which the pros and cons of launching a new product must be weighed. NWB Bank's product approval process involves weighing up the risks involved for both the customer and the Bank itself. Those risks may occasionally prompt the Bank not to serve a customer entirely in accordance with the customer's wishes. This presents NWB Bank with a dilemma, as it seeks to assist its customers at all times, while also adhering to its internal policies.

Local public authorities mutually lending funds

The Treasury Banking Act (Wet schatkistbankieren) obliges all local public authorities to maintain surplus funds as treasury funds. All funds that the authorities do not need immediately for fulfilling their specific duties in society are considered "surplus" funds. An exception applies when local public authorities mutually lend those funds on specific conditions. This will see them enter into direct competition with NWB Bank. The dilemma that presents itself is that customers will obtain financing at the lowest possible cost – which ties in with the Bank's principal mission – while there is no level playing field, since the parties to the transaction are not subject to any capital or solvency requirements or to any special duty of due care. This may involve risks to both the customer and the local public authority concerned.

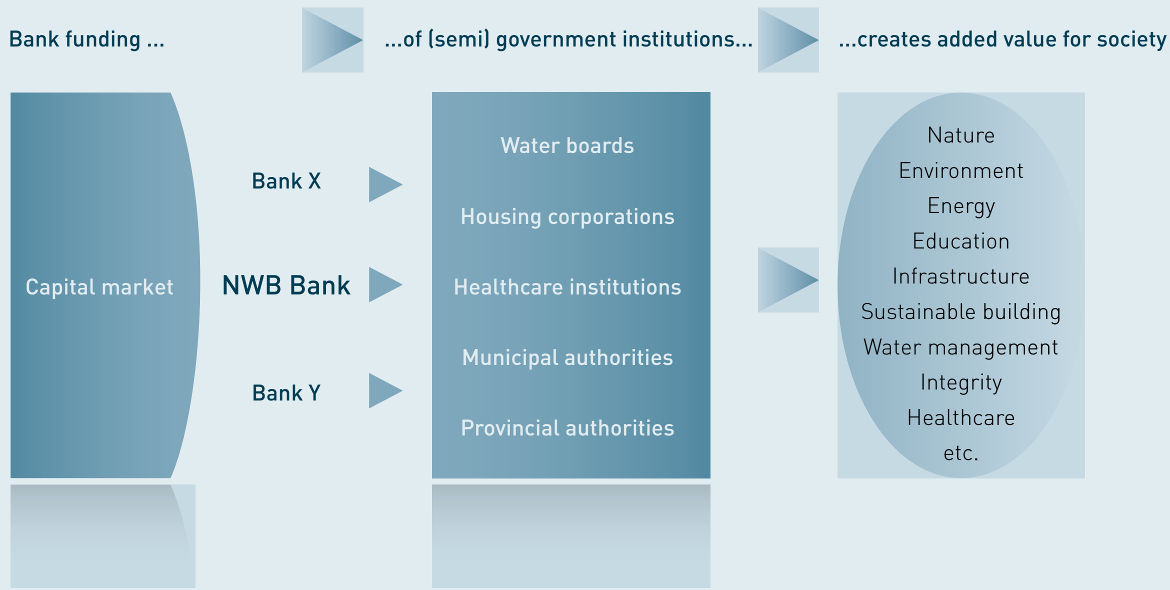
Rebound clause

Some of the payment agreements concluded by the group of municipal customers with their principal bank contain a rebound clause. A rebound implies that the principal bank is given an opportunity to issue a second, better quotation. NWB Bank believes that rebounds affect the integrity and transparency of quotation procedures and refuses to issue quotations in such procedures. This presents NWB Bank with a dilemma, as it seeks to provide finance to its customers at all times.

Providing finance without guarantees

Pursuant to its Articles of Association, NWB Bank may provide financing only to Dutch local public authorities or closely related or government-backed institutions, e.g. housing corporations and healthcare institutions that are backed by guarantee funds such as Waarborgfonds Sociale Woningbouw (WSW) or Waarborgfonds voor de Zorgsector (WFZ). This means that the Bank will not grant loans to housing corporations or healthcare institutions that are not backed in this way. The dilemma that presents itself is that those customers are finding it hard in present market conditions to obtain loans for the financial needs for which no guarantees are available. As regards those loans, the lack of guarantees makes it impossible for NWB Bank to fulfil its core duty under its current Articles of Association, which is to provide financing to its customers at the highest possible quality and the lowest possible cost. The only solution would be for NWB Bank to amend its Articles of Association such that the Bank is permitted to provide finance without guarantees.

Supply chain responsibility



Customers

All shares in NWB Bank are owned by the Dutch government (water boards, the State of the Netherlands and provincial authorities) and the Bank's public-sector customers bear their own individual social responsibility, for which they are under scrutiny by public opinion, laws and regulations and democratic processes. To increase further awareness, NWB Bank discusses sustainability issues with customers whenever possible and provides a platform for innovative projects by means of its annual CSR Award. CSR policies of customers are also discussed regularly during meetings and events hosted by the Bank for business relations. Moreover, periodic meetings with the ten largest borrowers are also used by the Bank to discuss the CSR policies as presented by the borrowers in their annual reports. The top ten of largest borrowers mainly consists of housing corporations, whose core duty of providing social housing makes them parties that contribute significantly to Dutch society.

Furthermore, one of the Bank's important responsibilities within the supply chain is its duty of care for its customers, as highlighted in the Dutch Banking Code. Examples include the customer information leaflet, which describes the specific attributes of a loan product, the detailed product descriptions on the Bank's website, and the events the Bank hosts for specific target groups to educate them about financial products and markets.

Investors

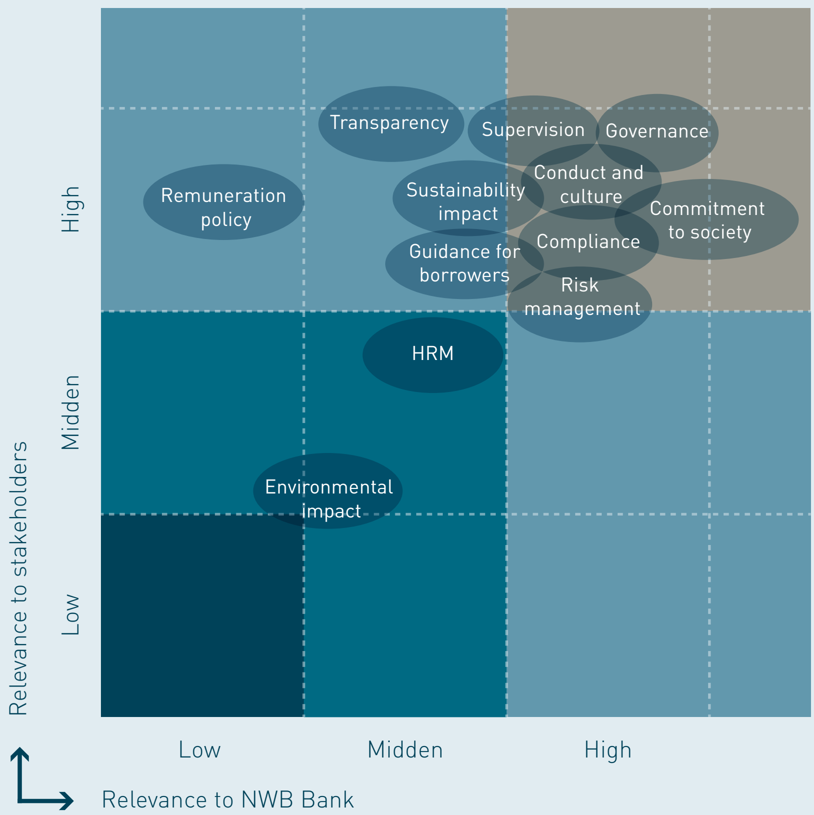
Parties investing in NWB Bank's debt instruments are another link in the supply chain. These investors, both institutional and sustainable market parties, are interested in the sustainability aspects of the organisations they invest in. They engage research agencies in the area of sustainability that use questionnaires to assess the Bank's CSR policy and its transparency. NWB Bank accommodates these agencies by including supplementary information in its GRI Table and entering into a dialogue with them. Since the Green Bond issue in 2014 (see www.nwbbank.com/ green-bond-waterobligatie), NWB Bank publishes an annual newsletter to report to the investors on how the proceeds of the Green Bond are used, i.e. to finance climate-friendly projects of the water boards.

Suppliers

In a joint effort headed by the Dutch Ministry of Infrastructure and the Environment, local authorities boost the market for sustainable products by applying sustainable procurement criteria. NWB Bank follows this lead of its customers and, through its purchases, endeavours to influence suppliers' conduct in such areas as labour conditions, employee rights and the environment. NWB Bank maintains an ongoing dialogue with suppliers on the application of procurement criteria and improving sustainability. As of 1 January 2015, all Dutch government authorities are committed to making 100% sustainable purchases.

Stakeholder dialogue

NWB Bank communicates with its stakeholders on a regular basis. Within a CSR context, the Bank defines as its stakeholders those individuals and organisations with whom it collaborates or that have an interest in the specific role in society NWB Bank fulfils as a public-sector bank. As a minimum, the Bank considers its shareholders, customers, investors, employees, the supervisory authorities, and the government as such. As in previous years, a materiality assessment of the CSR issues relevant to the Bank was made in 2014. The issues were charted based on discussions held with stakeholders and, where possible, the policies they pursue with respect to both generally social and sector-specific issues. This has resulted in the Material Issues Plot shown below, which was extensively debated with the CSR Committee members. Governance, supervision, compliance/integrity and transparency, in particular, are highly relevant issues affecting both the stakeholders and NWB Bank. Their relevance is apparent from such aspects as supervisory policies, discussions with shareholders, the focus on credit ratings in the financial markets and the Bank's own policies. Explanatory notes to the table below can be found in the GRI Table.



The Material Issues Plot was prepared from the stakeholders' perspective - discussions were held with them, an on-line survey was conducted and benchmarks were used to compare against peers and establish the issues that stakeholders consider important. Based on the impact issues have on stakeholders and using their feedback, an estimate was made of the relevance of each issue to those stakeholders, taking into account the fact that not all stakeholders have the same interests.
The relevance of those issues to NWB Bank was subsequently established by the CSR Committee, in which the Managing Board is also represented.

A number of issues considered to be of less relevance were not included in the Material Issues Plot. The most important issues considered material by the CSR Committee were conduct and culture, impact of sustainability, and social engagement. Governance, supervision and compliance were issues considered material primarily by the Managing Board. The stakeholders must realise that the small size of NWB Bank's office network prevents the Bank from having any significant impact on the environment.

In the table below, the material issues identified are coupled to the Bank's CSR policy and are categorised by most significant stakeholder.

Stakeholder	**Material issue**	**Theme and CSR policy**
Shareholders	Remuneration policy	Acting with integrity and transparency
	Social engagement	Providing finance in a sustainable and committed way
Customers	Guidance for borrowers	Sharing financial expertise with the public sector
	Social engagement	Providing finance in a sustainable and committed way
Investors	Sustainability impact	Providing finance in a sustainable and committed way
	Transparency	Acting with integrity and transparency
	Governance	Acting with integrity and transparency
Employees	HRM	Acting with integrity and transparency
Government	Facilitating	Operating in a sustainable and socially relevant way
Supervisory authorities	Conduct and culture	Acting with integrity and transparency
	Supervision	Acting with integrity and transparency
	Compliance	Acting with integrity and transparency
	Risk management	Acting with integrity and transparency

Shareholders
Once a year, an Annual General Meeting of Shareholders is convened. During the Meeting, the Managing Board renders account of objectives (including CSR), corporate strategy, policies and financial results, among other matters. Furthermore, periodic shareholder consultations are held to address recent developments within the Bank and trends in society that may impact the Bank or its shareholders. Issues such as the Bank's governance and developments in that field are also discussed with the shareholders with some frequency. The 2014 Annual Meeting showed that the themes have been well described, with a well-defined vision and mission statement.

Customers
NWB Bank's various customer groups face their own sector-specific developments. As a result, there is increased attention throughout their organisations for matters such as interest expenditure and other costs, and financial risks. Moreover, trends in the financial markets lead to opportunities and threats that affect customers directly and indirectly. Combined, all these phenomena complicate both immediate and long-term financing issues, which is why customers value being given the opportunity to exchange views

on these and other subjects. Discussions are held both by telephone and during visits, depending on the subject matter and the customer's preference. The knowledge and experience shared by NWB Bank's employees educate customers and allow them to make informed decisions.

Each week, NWB Bank sends its customers a Financial Markets Overview (also posted on the website) to help them monitor market developments. The overviews allow customers to anticipate further developments when markets undergo drastic changes. In addition, NWB Bank hosts events for specific target groups to provide more in-depth and broader insights into financial market developments, products, and working methods of third parties that may be of relevance to customers. Customer input is used when compiling the programmes for such events, which cater to a need, given the high turnout. When invited to do so, NWB Bank also holds presentations on specific topics during network and regional meetings.

CSR is a recurring subject, both in customer visits and at customer events. Furthermore, in presenting the annual CSR Award, NWB Bank seeks to foster the development of socially responsible projects by customers and give them a platform. The associated cash prize may be invested in the project or be donated to a social cause of the winner's choice.

NWB Bank engages in a permanent dialogue with supervisory authorities, industry organisations and sector-specific guarantee funds. The dialogue provides the Bank with information on and backgrounds to new and existing policies conducted in the various sectors, as a result of which the Bank can respond appropriately to customers' interests. Furthermore, the dialogue allows the Bank to gain insight into the needs of supervisory authorities and guarantee funds, on the one hand, and customers, on the other, allowing it to propose solutions in consultation with those stakeholders. For example, one of the Bank's products was adapted in such a way, in consultation with housing corporations, as to facilitate a more efficient collateral management.

Investors

Throughout the year, Managing Directors and Treasury Department staff visit investors to explain the Bank's half-year figures and annual financial statements and other trends. To fund its operations, NWB Bank mainly issues negotiable debt instruments in the international money and capital markets, which means that many of the investors are not known by name to the Bank. NWB Bank informs investors through international road shows, the Annual Report, and information posted on the website. If investors are known to the Bank, they are subjected to a "Know your customer" assessment when starting to do business with the Bank and funds are accepted from them only if they pass that due diligence assessment. NWB Bank seeks to enter into an active dialogue with investors that engage in sustainable investment, aimed at finding areas for improvement in its own CSR policy.
The Green Bond issue in 2014, the first of its kind for NWB Bank, was also implemented in dialogue with the investors, via the banks involved. With that €500 million issue, the Bank has attracted new investors and broadened the market span for green bonds. Not just traditional investment considerations such as safety of investment and risk-adjusted returns played a role for investors: 69% of the issue was bought by investors who purchased the bonds due to their interest in supporting climate-friendly projects within their investment mandates.

Employees

Employees are important stakeholders in NWB Bank. Indeed, the Bank's success depends on the professionalism and commitment of its employees, which is why it is of fundamental importance that employees permanently develop their knowledge and skills. Accordingly, NWB Bank has a generous budget for training. Both individual and in-company training sessions are organised to educate employees on a range of different aspects, including compliance and information security.

NWB Bank strives to maintain an open dialogue among its employees, which means, in practical terms, that employees are encouraged to exchange knowledge and information as much as possible. This is done, for example, by distributing the minutes of management team meetings and holding consultative work meetings, both one-on-one and for departments as a whole. Knowledge is also exchanged in multi-disciplinary consultation groups and project teams. The Bank invites its employees to express their wishes and ideas with respect to the organisation and working at the Bank at all times, notably during performance and assessment interviews. In addition, attention is given to individual employees' work-life balance. Combined, these elements contribute to our employees' engagement in the Bank's organisation as a whole.

The consultations between the Employee Representative Body (ERB) and the Bank are an expression of the Bank's endeavour to engage employees. In the past year, the Managing Board had several (2014: 4) meetings with the ERB at which at least one member of the Supervisory Board was present also. Subjects discussed included the general affairs of the organisation and, in particular, a harmonisation of the pension schemes. A decision to apply the average salary scheme to all employees as of 1 January 2015 was adopted with a big majority. The ERB and the Managing Board discussed the pension scheme repeatedly and the ERB's input was duly considered in the adoption of a new pension scheme. As the workforce is growing, the Bank is now on the eve of establishing a new form of employee participation: a Works Council. In 2015, preparations will be made to set up a Works Council to replace the ERB.

Moreover, in 2015, an employee satisfaction survey will be conducted in collaboration with the ERB (or the Works Council). The survey should provide NWB Bank with insight into the views of its employees with respect to working at the Bank.

Supervisory authorities

Several meetings are held each year with the statutory supervisory authorities – DNB and the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) – which oversee compliance with laws and regulations. Effective November 2014, the European Central Bank (ECB) started its supervision – in close cooperation with national supervisors - of the largest banks in the euro zone, a group of approximately 130 banks that also includes NWB Bank. All European banks directly supervised by the ECB had to undergo a Comprehensive Assessment (CA) in 2014. The CA comprises an Asset Quality Review to test the quality of a bank's balance sheets and a Stress Test to test the bank's ability to cope with economic setbacks. In the context of the CA, the various stakeholders involved shared information on material issues.

The Bank is not only subject to statutory supervision, but is also monitored by rating agencies. There are Moody's and Standard & Poor's, which assess the Bank in terms of credit risks, but also a number of other agencies that operate internationally in the area of sustainability. A dialogue was initiated with the latter group to consider in which respects NWB Bank might adjust its policies, after duly weighing the various stakeholders' interests, so as to make its business operations even more sustainable.

Government

A bank of and for the public sector, NWB Bank operates within the field of operations demarcated by the central government for local public authorities and the institutions they back. NWB Bank participates in meetings with various relevant Dutch government ministries on a regular basis, contributing its expertise in areas that are of relevance to its customers, both as part of policy discussions and otherwise. For instance, the Bank is an active participant in the Local Public Authorities Financing Working Group.

NWB Bank and the EIB have agreed to establish a special partnership and develop joint actions in supporting long-term investment in key public sector areas. Such areas comprise of sustainable public transport, health care, education, social housing, renewable energy and energy efficiency, environmental transition (including water, wastewater and solid waste) and climate adaptation and mitigation (e.g. dykes, sluices, locks).

Independent Auditor's Assurance Report

To the readers of the Annual Report 2014 of Nederlandse Waterschapsbank N.V.

Our opinion

We have audited the chapter 'Corporate Social Responsibility' (hereafter: 'the CSR Chapter') of Nederlandse Waterschapsbank N.V. (further 'NWB Bank'). In our opinion, the CSR Chapter presents fairly, in all material respects, the sustainability performance of NWB Bank in accordance with the G4 Guidelines of the Global Reporting Initiative and supplementary internal guidelines. We report, to the extent we can assess, that the information on sustainability in the other sections of the Annual Report is consistent with the information in the CSR Chapter.

Basis for our opinion

We conducted our reasonable assurance engagement in accordance with the Dutch Standard 3810N: "Assurance engagements relating to sustainability reports". We do not provide any assurance on the achievability of the objectives, targets and expectations of NWB Bank.

Our responsibilities under Standard 3810N and procedures performed have been further specified in the paragraph titled "Our responsibility for reasonable assurance on the CSR Chapter".

We are independent of NWB Bank in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Managing Board for the CSR Chapter

The Managing Board is responsible for the preparation and fair presentation of the CSR Chapter in accordance with the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative and supplementary internal guidelines as described in paragraph 'CSR reporting guidelines' of the CSR Chapter. It is important to view the information in the CSR Chapter in the context of these criteria.

As part of this, the Managing Board is responsible for such internal control as it determines is necessary to enable the preparation of the CSR Chapter that is free from material misstatement, whether due to fraud or error.

Our responsibility for reasonable assurance on the CSR Chapter

Our objective is to plan and perform the reasonable assurance assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our assurance engagement has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.
The following procedures were performed:

- A risk analysis, including a media analysis, in order to deepen our insight in relevant sustainability issues for NWB Bank in the reporting period;
- Evaluating the appropriateness of NWB Bank's reporting standards;
- Evaluating the design and implementation, and testing the operating effectiveness, of the systems and processes for collecting and processing the information in the CSR Chapter;
- Interviewing members of the Managing Board and members of the CSR committee responsible for the sustainability policy;
- Interviewing relevant staff and members of the CSR committee responsible for providing the information in the CSR Chapter;
- Evaluating internal and external documentation, based on sampling, to determine whether the information in the CSR Chapter is supported by sufficient evidence.

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

Amsterdam, 18 March 2015
KPMG Sustainability,
Part of KPMG Advisory N.V.

W.J. Bartels RA, Partner

CSR Award

In presenting its annual CSR Award, NWB Bank seeks to foster the development of socially responsible projects by customers. The 2014 winner of the award was given a €25,000 cash prize and a platform for publicising its project to a larger audience.

Conditions

Eligible for participation were projects completed or substantially completed between January 2013 and December 2014.The winner must invest the cash prize in a socially responsible project or donate it to a civil organisation of its choice. Participants could submit a maximum of three projects.

Assessment of projects submitted

A jury was formed to assess all projects submitted in an independent and objective fashion. Their assessment was based on the following criteria:

1) Innovative and novel
2) Feasible and effective in practice
3) High profile and significant social impact
4) Paying for itself, in financial or social terms

Members of the CSR Award jury:

Chair: Sjaak Jansen
Member (Staatsraad) of the Council of State

Albertine van Vliet-Kuiper
Member of the Supervisory Board of NWB Bank

Ellen van Donk
Professor (Hoogleraar) at Utrecht University

The 2014 winner: Stroomversnelling

Stroomversnelling "the rapid" is an initiative of 6 housing corporations (Portaal, Wonen Limburg, Tiwos, Woonwaard, Lefier and Stadlander) and 4 construction companies (BAM, VolkerWessels, Dura Vermeer and Ballast Nedam). Their common objective is to renovate 111,000 rented properties before the year 2020 such that the houses in question will not only be highly efficient in terms of energy consumption but will even produce energy of their own. Result: tenants will be able to live in comfortable "nil-bill" homes for the same amount of rent.

With the Stroomversnelling project, housing corporations help tenants reduce the overall housing costs to a minimum. At the same time, the properties retain their value and contribute to a sustainable future for the Netherlands.

CO_2-winning (Carbon Extraction), a project of the Higher Water Board of Hollands Noorderkwartier, and RijswijkBuiten, a project of the Municipality of Rijswijk, were awarded second and third places.

Jury report

Although the top 3 nominees all met the four assessment criteria, Stroomversnelling immediately stood out to the jury. Portaal's management has fostered innovation by taking the lead in a clear and transparent fashion. The project, the first phase of which is underway, will lengthen the economic life of existing properties in a sustainable and profitable way. In addition, the projected renovation of 111,000 rented properties makes the project a sizable enterprise. By taking the lead, Portaal has exposed itself to a range of risks and challenges, but a successful implementation of the project will pave the way for other housing corporations that wish to follow in Portaal's footsteps. This makes a roll out throughout the Netherlands a real option.

The other top 3 projects were CO_2-winning and RijswijkBuiten. CO_2-winning was awarded second place because of its unique nature: the extraction and re-use of carbon dioxide released during the water purification process. No such technique has ever been tested or implemented anywhere. RijswijkBuiten, a new sustainable neighbourhood, was a good candidate because of the Municipality's vision and ambition to combat the area's deterioration in an environmentally friendly way and, at the same time, create demographic diversity.

Use of the prize

When renovating properties, Portaal comes across an increasing number of senior and other citizens in need, destitute people, and tenants who find it difficult to keep up the pace of modern times, socially or economically. And although constant efforts are made to connect with other sectors via technical solutions, much is still to be gained in the social domain. Portaal would like to use the money to establish links to other sectors, to invent solutions that contribute to a better service to hard-pressed target groups during renovation projects.

Details of the other top 3 participants

Carbon extraction at sewage purification plant in Beverwijk

(Abstract CO_2 winning op rwzi Beverwijk)

The carbon extraction process at the sewage purification plant (rwzi) in Beverwijk presents a unique project, in which a new raw material is extracted from waste water and sold, which gives the water board an extra tool to be able to meet the Climate Convention objective and the long-term (MJA3) arrangements, and which yields extra money. Carbon dioxide (CO_2) is a residual product of the process in which biogas is converted into green gas, called "biogas upscaling". The carbon dioxide being of very high quality, the Hollands Noorderkwartier Water Board, Organic Carbondioxide for Assimilation of Plants (OCAP), BioGast and ARCADIS have joined forces to store the CO_2 and inject it into OCAP's carbon dioxide network, after which it is supplied to market gardeners. During the term of the project, approximately 6 million m^3 of CO_2 will be used rather than exhausted.

The annual energy savings resulting from this process compared with the savings achieved from conventional carbon extraction methods are equal to the energy consumed by 900 dwellings. Thanks to the collaboration with BioGast (the unit's owner and operator), the investment for the water board is minor and its return times will be short, i.e. less than five years. The concept of carbon extraction from the sludge of sewage purification plants has not been applied anywhere in the world as yet. In other words, the Beverwijk sewage purification plant is the first to be able to apply it. Other water boards have already shown a lot of interest in the concept.

RijswijkBuiten

Over the next decade, the south part of Rijswijk will change completely. RijswijkBuiten will be Rijswijk's new residential area. The three areas of Sion, 't Haantje and Pasgeld will be amalgamated into a wonderful new neighbourhood, taking account of the unique features of each of those three areas. Until 2023, 3,500 dwellings will be built in the area. The sheer size of the project sets it apart from any other project in this field. RijswijkBuiten will be a remarkable residential area, in part owing to its special layout and design. It will be a neighbourhood of and for everybody, but above all it will be a sustainable neighbourhood. The dwellings in RijswijkBuiten already have a 0.0 Energy Performance Coefficient (EPC), thanks to the application of an innovative energy system. So, low-energy is key, and residents will benefit from this through their electricity bills. But the neighbourhood will also be sustainable owing to its spacious layout, the standard two parking places for each dwelling, and the greenery and water in the area. For more details, visit www.rijswijkbuiten.nl.

CSR reporting standards

NWB Bank's disclosure policy is geared towards reporting on its operations in a transparent manner. In reporting on its CSR policy, the Bank uses the GRI guidelines (which can be found on www.globalreporting.org), specifically, the GRI's G4 guidelines. We report at GRI application level "Core." The section on Corporate Social Responsibility was externally assured by KPMG (see the independent auditor's assurance report on page 61). For a full overview of relevant content criteria and performance indicators, reference is made to the GRI Table, which can be found on the Bank's website.

NWB Bank's environmental and social impact is felt primarily within its own organisation. This is why this CSR report concerns the business and performance of NWB Bank's office in The Hague. Our choice for GRI is motivated by the fact that we wish to achieve good international comparability with other institutions, i.e. other Dutch banks and state-held enterprises. In reporting on CSR, NWB Bank's Managing Board identified four themes in the field of CSR, partly in dialogue with the Bank's stakeholders, which also constitute a significant target group of this Annual Report.

Effective 2014, NWB Bank has been using the GRI's G4 guidelines instead of the earlier GRI's G3 guidelines. G4's principal objective is for the reports issued by the organisations to present relevant information and provide guidance for permanent change, both inside and outside of those organisations.

Risk management includes CSR aspects and forms an integral part of NWB Bank's processes. The Internal Audit Department reviews all key processes at least every other year, in addition to acting in a CSR advisory role and safeguarding the reliability of the CSR information provision.

'NWB Bank uses its NWB Fonds to help water boards meet the growing demand for their expertise, so that their knowledge and skills can be deployed in resolving global water issues.'

Paul Langeveld, Program Manager of the NWB Fonds

NWB Fonds

Capacity building with visible results

In 2014, the OECD report entitled "Water Governance in the Netherlands: Fit for the Future?" once again explicitly revealed that Dutch water management is acknowledged as a global reference. This not only enhances confidence for the future of the Netherlands, it also means that the water boards' knowledge and expertise are worth being deployed in order to contribute to solutions to global water issues. NWB Bank uses its NWB Fonds to help water boards meet the growing demand for their expertise and deployment in resolving global water issues.

Water boards are aware of their responsibility and are fully committed to resolving water issues. Obviously, they receive something in return: in many cases, international projects boost innovation, as well as the development and motivation of their staff and organisations.

At present, NWB Fonds has €800,000 available each year to fund and support water boards' international partnership activities that have the following objectives.

- Fostering the sustainable management of water systems and water chains
- Strengthening capacity with respect to local or regional water governance

In March 2014, the water boards agreed that they would collect any and all questions posed to them individually from all parts of the world at one desk named "Dutch Water Authorities". This desk classifies and analyses all those questions, and allocates them to the various water boards. The Dutch Water Authorities desk has been assigned to the Dutch Association of Regional Water Authorities *(Unie van Waterschappen)*. NWB Fonds wholeheartedly supports this development.

Abroad, NWB Fonds presently supports different types of water board partnerships in Bangladesh, Egypt, Ethiopia, Indonesia, Mozambique, Nicaragua and South Africa. Dedicated projects were set up for the Bangladesh and Mozambique delta countries to lend more substance to the combined efforts and make the water boards' contributions even more professional. Partnerships with other local and Dutch-based water sector partners in Ethiopia, Nicaragua and South Africa are growing. In terms of substance, the focal points of our knowledge activities are good water governance (in tandem with the Water Governance Centre) and finding new solutions for waste water treatment, while producing energy and reusing raw materials (in concert with Aqua for All).

An interesting partnership project soon to be completed is the capacity building programme for the Steering Centre for Flood Control (SCFC) in the south of Vietnam. For two years, Ho Chi Minh City, Vietnam's largest city, five Dutch water boards united in Dutch Water Authorities, the University of Twente in Enschede, the Netherlands, and Royal HaskoningDHV have worked together under this programme, aiming to buttress the SCFC, a young organisation responsible for water management, including the sewer system of all of Ho Chi Minh City, by sharing water management knowledge and skills.

Approximately 10 million people live in Ho Chi Minh City; the SCFC must build capacity, to be ready for the complex duties it will face in the future. The Dutch contribution also focuses on new ways of partnering with other governments. Within this context, the experts of Dutch Water Authorities provide their Vietnamese colleagues with advice on how to reduce the risks ensuing from the increasing chance of floods. For the consultants involved, it is at least as valuable to experience how foreign eyes look at the Dutch approach.

The programme has kicked off with a detailed SCFC governance report prepared by the Governance Centre of the University of Twente, in tandem with Royal HaskoningDHV. As a start, the report created insights for the SCFC into the context within which it operates, but it also yielded information for Dutch Water Authorities as to the development of the second part of the programme, which comprises five training modules, to be followed over a period of 18 months. The training programme has been designed especially for this project. By bringing together the Vietnamese knowledge and the Dutch experience and approach, the SCFC is meant to be able to operate autonomously in the future in five essential policy areas.

1) strategic planning
2) flood risk management
3) waste water treatment
4) project management
5) finance

In 2014, four 1-week training modules were completed. The last module has been scheduled for April 2015. The training is extremely hands-on and heavily relies on the Vietnamese participants' self-motivation. Their technical knowledge is tested on the basis of the Dutch water management experiences gained. In addition to the enthusiastic response, the number of participants rising with each training module is a wonderful sign of the programme's success. Quote from a participant in the fourth training module: "In college, I already learned a lot about risk management in relation to projects. Now that you've provided me with more insights in this area and let me apply what I've learned to my own project on the basis of a 'Room for the River' *(ruimte voor de rivier)* project in the Netherlands, I have only recently come to understand how I can put this knowledge into practice."

For more information (Dutch only), please visit www.nwbfonds.nl

Remuneration Report 2014

NWB Bank seeks to express the role it fulfils in society, as a bank of and for the public sector, in its remuneration policy, one that is moderate and sustainable, that is in keeping with its strategy, risk profile and risk appetite, that is unambiguous and transparent, and in line with national and international rules and regulations. In addition, the Bank's policy is aimed at recruiting and retaining qualified and knowledgeable employees.

Since 2011, specific rules have applied to remuneration policies with respect to "identified staff" as per the Dutch Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2011 *(Regeling beheerst beloningsbeleid Wft 2011)* issued by the Dutch Central Bank (De Nederlandsche Bank N.V., DNB). These rules were amended further to the Capital Requirements Directive IV (Directive 2013/36/EU; the CRD IV). Pursuant to DNB's Regulation providing for rules with respect to the Dutch Restrained Remuneration Policy (Financial Supervision Act) Regulation of 2014 *(Regeling beheerst beloningsbeleid Wft 2014, the "Rbb")*, the relevant provisions of the CRD IV were implemented on 1 August 2014.

In 2014, a Remuneration Policy Working Group at NWB Bank assessed the Bank's current remuneration policy against the Rbb. The assessment showed that the Bank's remuneration policy is in conformity with the Rbb. Furthermore, the Remuneration and Appointment Committee reviewed the policy and the Supervisory Board approved it.

In assessing its policy against the Rbb, the Bank used the European Banking Association's regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (the "EBA Criteria") and the Committee of European Banking Supervisors' Guidelines on Remuneration Policies and Practices (the "CEBS Guidelines"). On the grounds of the EBA Criteria and the CEBS Guidelines, NWB Bank applied the principle of proportionality in respect of a number of Rbb provisions. This principle means that the Rbb may be applied in a way and to an extent that is commensurate with the relevant company's size and internal organisation, and the nature, scope and complexity of its operations.

A Dutch-language document entitled "Assessment of NWB Bank's remuneration policy" *(Toetsing beloningsbeleid NWB Bank)* is available on the Bank's website, **www.nwbbank.com**, providing a section-by-section overview of the Rbb's implementation.

On 7 February 2015, the Dutch Act of 28 January 2015 amending the Financial Supervision Act providing for rules with respect to financial companies' remuneration policies (*Wet van 28 januari 2015 tot wijziging van de Wet op het financieel toezicht houdende regels met betrekking tot het beloningsbeleid van financiële ondernemingen,* Wbfo) entered into force. Consequently, the remuneration policy with respect to Managing Directors and employees was revised on that same date. These revisions will be addressed in the Remuneration Report 2015.

In the spring of 2015, meetings with representatives of shareholders of NWB Bank were held, during which the remuneration policy with respect to the Managing Directors was discussed. Preparations for those meetings already started in 2014. A progress report will be presented by the chairman of this Shareholders' Committee at the Annual General Meeting of Shareholders.

This Remuneration Report addresses the remuneration policy that applied in 2014.

Remuneration policy with respect to Managing Directors

Fixed remuneration

The remuneration policy with respect to Managing Directors was most recently amended and adopted by the Annual General Meeting of Shareholders on 1 January 2010. The policy – which applies to Managing Directors appointed on or after 1 January 2010 - entails a maximum salary of €283,500, including the variable component, to be paid to the Managing Board's Chairman and a maximum of 85% of that amount for the other Managing Directors with effect from 1 January 2014. Departures are permitted should labour market conditions put the continuity of the Bank's high-quality management at risk. These maximum amounts are subject to annual indexation in line with the structural salary adjustments laid down in the collective labour agreement for the banking industry (the "CLA").

Variable remuneration

The variable remuneration of the Managing Directors equals no more than 15% of their fixed remuneration and is based on the relevant Managing Director's performance, that of the business units he or she is responsible for and that of the Bank as a whole. Such performance has been quantified as pre-determined and assessable performance criteria, set out in a performance contract that is updated each year. The variable remuneration of the Managing Directors comprises a short-term element and a long-term element. The amounts of both are determined on the basis of pre-agreed short-term targets for the relevant year. The short-term element (equalling no more than 10% of the fixed remuneration) is paid after the relevant performance year. The long-term element (equalling no more than 5% of the fixed remuneration) is paid in the fourth year after the year to which it relates, provided the pre-agreed additional long-term targets have been achieved.

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) - a maximum of 4%
- risk management (in line with internal and external sets of standards) - a maximum of 3%
- strategy/policy implementation (in line with the targets set out in the annual Policy Memorandum) - a maximum of 4%
- personal areas for attention and targets - a maximum of 4%

The long-term categories are:
- ratings - Standard & Poor's and Moody's ratings for the Bank must equal the sovereign rating for the State of the Netherlands; and
- strategy - the Bank's market position must have been bolstered.

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. The Supervisory Board is authorised to apply a penalty or a claw-back with respect to the variable remuneration should financial or other data underlying the variable remuneration prove to be incorrect or where it believes that the variable remuneration would otherwise be unfair or unintended. The authority to apply a claw-back applies to the short-term element of the variable remuneration and is valid for up to three years following its payment.

NWB Bank does not grant any variable remuneration in the form of financial instruments. Given that NWB Bank's operations are not of a complex nature and are homogenous, the Bank applies the principle of proportionality pursuant to Section 2 of the Rbb. The Bank has a low risk profile and has no financial instruments as an alternative to shares or any type of equity-related variable remuneration. Moreover, the amounts of the Bank's variable remuneration are relatively modest, equalling no more than 15% of fixed salaries (no more than 10% on a yearly basis and no more than 5% on a long-term/four-yearly basis).

Given the nature of the Bank's business operations 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 Managing Directors - and of the employees - come under a group pension plan, which has been insured with an insurance company, with pension contributions being borne by NWB Bank. On 31 December 2014, the pension contract with the insurance company expired. On 1 January 2015, a new 5-year contract was concluded, under which the old plans were harmonised into a single average pay plan for the Managing Directors and the employees alike. In particular due to increased life expectancy rates and the sharp decline in interest rates, pension contributions went up. The new statutory provisions applicable as of 1 January 2015 in relation to maximum pension accrual and contribution percentages and the cap on pensionable income of €100,000 have been included in the new pension plan. The employer offered a net pension plan for salaries exceeding €100,000. Effective 2015, a new pension plan applies to the Bank's Managing Directors and employees that better suits the current times and that provides for members' own contributions.

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 the Managing Directors in 2014

Fixed remuneration

Both Lidwin van Velden, who was appointed to the Managing Board on 1 January 2010, and Frenk van der Vliet, who has been employed as a Managing Director since 1 January 2012, are subject to the remuneration policy adopted as at 1 January 2010. Ron 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 Managing Directors' fixed remuneration was not subject to indexation in 2014.

Variable remuneration

In February 2015, the Remuneration and Appointment Committee assessed NWB Bank's actual results against the pre-determined targets, concluding that those targets had been almost fully achieved. External factors, in particular, have led to the odd target not having been

Category	Target	Result
Profit (4%)	In line with the targets set out in the annual budget	4% - fully achieved, as disclosed in the financial statements
Risk management (3%)	In line with internal and external sets of standards	3% - fully achieved, as disclosed in internal reports on key ratios
Strategy/policy implementation (4%)	In line with the targets set out in the annual Policy Memorandum	3% - almost fully achieved
Personal areas for attention (4%)	Ron Walkier Lidwin van Velden Frenk van der Vliet	3% 4% 3%

fully achieved, despite the efforts put in by the Managing Directors in question. Furthermore, the year was characterised by the transition to European supervision, which required special efforts from the Managing Board. On that basis, the Committee submitted a proposal to the Supervisory Board.

Performance assessment of the Managing Directors

The table provides the results of the performance assessment adopted by the Supervisory Board.

Of the maximum variable remuneration of 15% to be granted to the Managing Directors, 13% was granted to Ron Walkier and Frenk van der Vliet. Lidwin van Velden was granted 14%, considering her successful efforts within the framework of the first Comprehensive Assessment conducted by the European Central Bank (ECB). The short-term variable remuneration which the Supervisory Board granted was 8.7% of the fixed remuneration for Ron Walkier, 9.3% for Lidwin van Velden and 8.7% for Frenk van der Vliet. Managing Board Chairman Ron Walkier has waived his variable remuneration for 2014, given the prevailing suspension of dividend distributions. His variable remuneration comprises a short-term element of €24,119.58 and a long-term element for 2011 of €13,788.13, as addressed later on in this report.

The table below provides an overview of the remuneration for Managing Board members for 2014 and 2013.

Remuneration of the Managing Directors

(in thousands of euros)	Fixed remuneration	Variable remuneration	Payment of long-term variable remuneration for 2011	Pension contributions
2014				
Ron Walkier	277	-	-	94
Lidwin van Velden	210	19	10	57
Frenk van der Vliet	210	18	n.v.t.	49
Total	**697**	**37**	**10**	**200**
2013				
Ron Walkier	277	-	-	100
Lidwin van Velden	210	21	10	60
Frenk van der Vliet	210	21	n.v.t.	51
Total	**697**	**42**	**10**	**211**

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 €2,800 each.

Staggered payment of long-term element of variable remuneration

Part of the variable remuneration is not made payable until the long-term targets are achieved upon expiry of the long-term remuneration period, which is in the fourth year in this case. Of the variable remuneration, one-third is conditionally granted over a period of four years. The Rbb stipulates a minimum conditional grant of 40%, but given the small difference, NWB Bank chooses to leave the policy adopted by the shareholders with effect from 1 January 2010 unchanged.

Long-term element of variable remuneration for 2011

In 2011, the variable remuneration for Managing Directors was a maximum of 15% of their fixed remuneration, the annual short-term element of which was a maximum of 10% and the deferred long-term element a maximum of 5%. Based on its assessment of the annual variable elements, the Supervisory Board granted short-term variable remuneration of 10% of the fixed remuneration for 2011 to the Management Directors (Ron Walkier and Lidwin van Velden). The following long-term factors were set in 2011.

- a rating at least equal to that of the State of the Netherlands must have been maintained (2011: triple A)
- strategy - the Bank's market position must have been bolstered

In February 2015, the Remuneration and Appointment Committee assessed NWB Bank's actual results against the long-term targets, concluding that those targets had been achieved. The Supervisory Board decided, at the proposal of the Remuneration and Appointment Committee, to make €13,788.13 payable to Ron Walkier and €10,421.97 to Lidwin van Velden. As stated above, Managing Board Chairman Ron Walkier has waived the long-term element of his variable remuneration for 2011, given the prevailing suspension of dividend distributions.

Long-term variable remuneration conditionally granted for 2012 to 2014 but not paid

The long-term elements of the variable remuneration for 2012, 2013 and 2014 conditionally granted by the Supervisory Board to Ron Walkier amount to €13,861, €13,861 and €11,921, respectively, equalling 5% of his fixed remuneration for 2012 and 2013, and 4.3% of his fixed remuneration for 2014. The long-term elements of the variable remuneration for 2012, 2013 and 2014 conditionally granted to Lidwin van Velden amount to €10,477, €10,477 and €9,849, respectively, equalling 5% of her fixed remuneration for 2012 and 2013, and 4.7% of her fixed remuneration for 2014. Frenk van der Vliet was conditionally granted the long-term element of the variable remuneration for 2012, 2013 and 2014 of €10,477, €10,477 and €9,010, respectively, equalling 5% of his fixed remuneration for 2012 and 2013, and 4.3% of his fixed remuneration for 2014.

Remuneration policy with respect to the employees

Fixed remuneration

NWB Bank's remuneration policy is uniform, applying to all employees, irrespective of their positions or job scales, as regards both fixed and variable remuneration. NWB Bank applies the CLA. Fixed remuneration comprises 12 monthly salaries, a holiday allowance and a 13th month's salary payment, subject to annual indexation in line with the structural salary adjustments laid down in the CLA. Furthermore, a performance assessment supplement of 15%, at a maximum, may be granted in excess of the job-specific salary. This supplement is applied with restraint and in stages, usually only if an employee has performed well and has reached the end of his or her salary scale.

Variable remuneration

Employees' variable remuneration comprises a bonus payment of up to 7% and a profit-sharing payment of up to 7.5%. To determine the variable payment under the bonus plan, an employee's performance is carefully assessed, based on the following factors.

- achievement of the targets defined for the relevant calendar year
- the manager's opinion
- any applicable adjustment in connection with findings, unwarranted risks or compliance issues
- the Managing Board's opinion

NWB Bank's remuneration policy principally centres on performance criteria that relate to quality and the performance of an employee's duties. In setting the targets, account is taken of the Bank's long-term objectives as set out in its Policy Memorandum and its core values, which are consciousness, engagement, reliability. They are also related to acting with due care, in the customer's best interests. Employees have a say in setting and adjusting their targets. An average variable remuneration under the bonus plan of 5.33% per employee (excluding the Managing Directors) was granted in 2014. Total variable remuneration for employees (for 2014) paid in 2015 comes to €336,894.53 (bonus plan and profit-sharing plan). Total annual remuneration paid to either the Managing Directors or the employees of NWB Bank did not exceed €1 million.

Besides the bonus plan, NWB Bank operates a profit-sharing plan of 7.5%.

As is the case for its Managing Directors, NWB Bank does not grant any variable emuneration in the form of financial instruments to its mployees. Given that NWB Bank's operations are not of a complex nature and are homogenous, the Bank applies the principle of proportionality pursuant to Section 2 of the Rbb. The Bank has a low risk profile and has no financial instruments as an alternative to shares or any type of equity-related variable remuneration. Moreover, the amounts of the Bank's variable remuneration are relatively moderate, equalling no more than 14.5% of fixed salaries (no more than 7.5% as a profit-sharing payment and no more than 7% as a performance bonus).
In contrast to the Managing Directors, no remuneration is conditionally granted to the Bank's employees and, hence, no payments are deferred. Based on an assessment of employees' individual performance, variable remuneration between 0% and 7% is paid in the following calendar year, based on the salary paid in January of the financial year ended. If 40% of the 7% maximum variable remuneration were conditionally granted, as prescribed by the Rbb, a maximum of only 3% in conditionally granted variable remuneration would remain. With due observance of the CEBS Guidelines, the Bank applies the principle of proportionality, given that NWB Bank's operations are not of a complex nature, the performance criteria applied to its employees are solely of a qualitative nature, the fact that a single plan applies to all employees and the small conditional grant to its employees of up to 3% that would remain. Furthermore, the variable remuneration of the Bank's employees for 2014 is not subject to a claw-back clause. Again, the Bank applies the proportionality principle, given that its operations are not of a complex nature and are homogenous, while the variable remuneration it grants is relatively modest.

Pensions

As mentioned earlier in this Remuneration Report in relation to pensions for the Managing Directors, the pension contract with the insurance company expired on 31 December 2014. On 1 January 2015, a new 5-year contract was concluded, under which the old plans were harmonised into a single average pay plan for the Managing Directors and the employees alike. In particular due to increased life expectancy rates and the sharp decline in interest rates, pension contributions went up.
The new statutory provisions applicable as of 1 January 2015 in relation to maximum pension accrual and contribution percentages and the cap on pensionable income of €100,000 have been included in the new pension plan. The employer offered a net pension plan for salaries exceeding €100,000. Effective 2015, a new pension plan applies to the Bank's employees and Managing Directors that better suits the current times and that provides for members' own contributions.

Other terms and conditions of employment

The Bank offers its employees various other fringe benefits, such as supplementary incapacity for work insurance, a staff mortgage loan discount plan, reimbursement of study expenses and a bicycle plan.

Cars are made available to employees whose positions necessitate or justify the use of a car.

Remuneration of the Supervisory Directors in 2014

The remuneration of the Supervisory Directors is regularly compared with that in similar companies and is set by the General Meeting of Shareholders. In early 2015, a consultancy firm performed a benchmark study. Based on the outcome, it was established that the Supervisory Directors' remuneration levels were relatively low, compared with peers. The results were shared with the Shareholders' Committee referred to earlier. As soon as the Dutch Ministry of Finance's policies on the remuneration of Supervisory Directors with publicly held participating interests are known, the Bank's remuneration will be assessed. The Supervisory Directors' remuneration has not changed since 2003, nor has it been subject to indexation.

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 allowances have applied 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
- fixed annual membership fees of €4,000 for members of the Audit Committee and €3,000 for members of the Remuneration and Appointment Committee

The Supervisory Directors' remuneration includes no variable components or options plans.

The remuneration of the Supervisory Directors was as follows in 2014.
(in thousands of euros)

	Supervisory Board	Audit and Risk Committee	Remuneration and Appointment Committee
Dolf van den Brink [1) 2)]	6	2	2
Peter Glas [3)]	14		2
Age Bakker [4)]	17	6	4
Else Bos	12	6	
Victor Goedvolk [5)]	7	4	
Sjaak Jansen [6)]	4		2
Maurice Oostendorp	12	7	
Albertine van Vliet-Kuiper	12		4
Berend-Jan van Voorst tot Voorst	12		7
Total	**97**	**25**	**19**

The above amounts exclude general expense reimbursements, health insurance premiums, travelling expense allowances and VAT, where applicable.

1) Chairman
2) Dolf van den Brink stood down with effect from the Annual General Meeting of Shareholders held on 23 April 2014 due to reaching his maximum term of office.
3) Deputy Chairman
4) Age Bakker was elected Chairman with effect from the Annual General Meeting of Shareholders held on 23 April 2014.
5) Victor Goedvolk stood down with effect from 1 August 2014 due to the entry into force on that date of the Dutch Act Implementing the Capital Requirements Directive and Regulation (*Implementatiewet richtlijn en verordening kapitaalvereisten*), restricting the number of executive and non-executive directorships at significant banks.
6) Sjaak Jansen stood down with effect from the Annual General Meeting of Shareholders held on 23 April 2014.

Financial statements

Statement of income

for the year ended 31 December 2014

(in millions of euros)	Notes	2014	2013
Interest and similar income		**1,852**	1,862
Interest and similar expense		**1,735**	1,767
Net interest income		**117**	95
Results from financial transactions	1	**-16**	-14
Other operating income	2	**0**	0
Total operating income		**101**	81
Employee benefits expense	3	**6**	6
Other administrative expenses	4	**7**	8
Contribution to Stichting NWB Fonds	5	**1**	-
Employee benefits expense and other administrative expenses		**14**	14
Depreciation, amortisation and value adjustments of tangible and intangible assets	6	**2**	2
Bank tax	7	**15**	15
Total operating expenses		**31**	31
Profit from ordinary operations before tax		**70**	50
Tax on profit from ordinary operations	8	**21**	16
Net profit		**49**	34

Balance sheet

as at 31 December 2014 before appropriation of profit

(in millions of euros)	Notes	2014	2013
Assets			
Cash, cash equivalents and deposits at the Central Bank	9	**502**	2,403
Banks	10	**10,174**	6,250
Loans and receivables	11	**64,666**	57,385
Interest-bearing securities	12	**4,360**	2,350
intangible assets	13	**3**	3
Tangible fixed assets	14	**5**	6
Other assets	15	**65**	13
Income tax	16	**32**	36
Derivative assets	17	**7,651**	3,739
Prepayments and accrued income	18	**791**	821
Total assets		**88,249**	73,006
Liabilities			
Banks	19	**1,276**	523
Funds entrusted	20	**5,325**	3,881
Debt securities	21	**63,178**	56,932
Deferred tax liabilities	22	**69**	46
Other liabilities	23	**53**	46
Derivative liabilities	24	**16,302**	9,618
Accruals and deferred income	25	**734**	697
Provisions	26	**9**	7
		86,946	71,750
Paid-up and called-up share capital	27	**7**	7
Interest-bearing securities revaluation reserve	28	**0**	0
Other revaluation reserves	28	**0**	0
Other reserves	29	**1,247**	1,215
Profit for the year	30	**49**	34
Equity		**1,303**	1,256
Total equity and liabilities		**88,249**	73,006
Irrevocable commitments	31	**2,111**	2,585
Contingent liabilities	32	**75**	76

Statement of comprehensive income

for the year ended 31 December 2014

(in millions of euros)	**2014**	2013
Net changes in the interest-bearing securities revaluation reserve	**-**	-1
Net changes in other revaluation reserves	**-**	0
Net changes in other reserves	**-2**	-4
Income tax on income and expense recognised directly in equity	**-**	1
Income and expense recognised directly in equity	**-2**	-4
Net profit	**49**	34
Comprehensive income	**47**	30

Statement of changes in equity

for the year ended 31 December 2014

(in millions of euros)	Paid-up share capital	Interest-bearing securities revaluation reserve	Revaluation reserves	Other reserves	Profit for the year	Total
As at 1 January 2013	**7**	**1**		**1,178**	**40**	**1,226**
Profit appropriation of previous year				40	-40	-
Dividends				-		-
Change in value of interest-bearing securities		-1				-1
Changes in value as part of the pension provision				-3		-3
Profit for the year					34	34
As at 31 December 2013	**7**	**-**	**-**	**1,215**	**34**	**1,256**
As at 1 January 2014	**7**	**-**	**-**	**1,215**	**34**	**1,256**
Profit appropriation of previous year				34	-34	-
Dividends				-		-
Change in value of interest-bearing securities		-				-
Changes in value as part of the pension provision				-2		-2
Profit for the year					49	49
As at 31 December 2014	**7**	**-**	**-**	**1,247**	**49**	**1,303**

Statement of cash flows

for the year ended 31 December 2014

(in millions of euros)	2014	2013
Profit before income and bank taxes	**85**	65
Adjusted for		
Depreciation, amortisation and value adjustments of intangible and tangible fixed assets	**2**	2
Change in value of assets and liabilities for fair value hedge accounting	**-92**	-164
Bank loans and receivables not available on demand	**-3,171**	-60
Public-sector loans and receivables	**794**	-1,465
Funds entrusted	**1,445**	1,440
Income tax paid	**7**	-35
Bank tax paid	**-15**	-15
Other assets and liabilities	**-954**	110
Net cash flows used in operating/banking activities	**-1,898**	-122
Additions to interest-bearing securities	**-4,438**	-1,232
Sales and redemptions of interest-bearing securities	**2,457**	259
Balance	**-1,981**	-973
Additions to property and equipment	**-1**	0
Disposals	**0**	0
Balance	**-1**	0
Additions to intangible assets	**-1**	-2
Net cash flows used in investing activities	**-1,982**	-975
Issued bond loans, notes	**12,405**	9,439
Repayment of bond loans, notes	**-9,200**	-7,497
Issued CP	**16,429**	30,791
Repayment of CP	**-17,655**	-30,882
Balance	**1,979**	1,851
Dividend paid	**-**	-
Net cash flows from financing activities	**1,979**	1,851
Net cash flow	**-1,901**	754

(in millions of euros)	2014	2013
Cash flow	**-1,901**	754
Cash and cash equivalents as at 1 January	**2,403**	1,649
Cash and cash equivalents as at 31 December	**502**	2,403

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 2014, interest payments of €1.769 million were made (2013: €1.779 million) and interest income of €1.877 million was received (2013: €1.850 million). These amounts are included under Other assets and liabilities in the statement of cash flows.

Notes to the financial statements

Corporate information

The 2014 financial statements of Nederlandse Waterschapsbank N.V. (NWB Bank) were prepared by the Managing Board and authorised for issue by the Supervisory Board on 18 March 2015 and will be submitted for approval to the Annual General Meeting of Shareholders (AGM) on 23 April 2015.

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 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). NWB Bank, which consists of one single entity, prepares company financial statements.

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 matching principle is applied to costs and revenue. The financial statements are presented in millions of euros and all amounts in the Notes are rounded to the nearest thousand (€000), except when otherwise indicated.

A number of items used in the Annual Accounts Formats Decree have been renamed, as these new names better reflect the content, according to NWB Bank.

In 2014, NWB Bank and six other banks in the Netherlands were subject to what is referred to as a Comprehensive Assessment (CA) conducted by the European Central Bank (ECB). The results of the CA did not prompt any adjustments to the 2013 financial statements or impact the financial position and results for 2014.

Continuity

The financial statements have been prepared on the basis of the going-concern assumption.

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 continues to be recognised 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 transaction costs directly attributable to these balance sheet items are taken directly to profit or loss.

The fair value is the amount for which an asset 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 Using 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 derivative 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 currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the spot middle rates (ECB) 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 currency swaps 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

Granted loans and receivables and purchased 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 increase 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 of these assets is recognised in profit or loss over the expected useful lives of the assets concerned.

Annual depreciation rates are:

■ Building	2 ½%
■ 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 initially recognised at fair value on the date on which a derivative contract is entered into. Any discrepancies between a financial instrument's fair value and the value under the Bank's measurement models are amortised over the instrument's term. Derivatives are also subsequently remeasured at fair value including accrued interest. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised in profit or loss as results from financial transactions. In 2013, NWB Bank reviewed its method for measuring the fair value of the outstanding swap portfolio, prompted by evolved best practices. Its hedge accounting models were modified for the same reason. Generally accepted measurement models are applied, based on the most appropriate valuation curves, which include the OIS curve. Effective 2013, valuation also included what is known as a credit valuation adjustment.

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; and
- A separate instrument having the same characteristics would be classified as a derivative.

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

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 interest income when the liabilities are derecognised.

Employee benefits - defined benefit plan obligations

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

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

A defined benefit 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 past years of service.

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

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.

Net interest income

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.

Bank tax

Bank tax is calculated on the basis of prevailing rates and tax legislation and stated on an undiscounted basis.

Income tax

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

Current tax assets and liabilities

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

Deferred tax assets and liabilities

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, 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 those based on the bank deposit operations are stated under cash flows from operating/banking activities given the nature of the operations. Changes in interest-bearing securities not held to maturity are also stated under cash flows from operating/banking activities.

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

Segment information

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 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 expenses. The estimates and associated assumptions are based on past experience, market information and various other factors considered to be reasonable given the circumstances. The outcomes form the basis for the opinion on most of the carrying amounts of 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 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 Net interest income

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

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as 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.

	2014	2013
Interest income on loans and receivables at amortised cost	**1,819,183**	1,833,299
Interest income on interest-bearing securities	**32,606**	29,044
Interest income	**1,851,789**	1,862,343
Interest expense on banks, funds entrusted and debt securities at amortised cost	**-872,762**	-851,731
Derivatives (net interest income/expense)	**-861,674**	-915,413
Interest expense	**-1,734,436**	-1,767,144
Net interest income	**117,353**	95,199

Interest income on loans and receivables at amortised cost includes a one-off gain of €3.2 million from sales and early redemptions in 2014, with a counterbalancing amount included in Results from financial transactions (2013: €3.3 million).

2 Results from financial transactions

This item can be broken down as follows.

	2014	2013
Unrealised changes in value:		
Revaluation of hedged positions recognised in profit or loss	**5,860,996**	-1,710,556
Revaluation of hedging instruments	**-5,769,439**	1,874,552
Unrealised revaluation of interest-bearing securities	**-54**	1,115
	91,503	165,111
Realised changes in value:		
Realised net loss	**-107,875**	-179,241
Total	**-16,372**	-14,130

The realised changes in value include premiums and fees received and paid 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 while applying hedge accounting of the financial instruments is €19,387 million at 31 December 2014 (31 December 2013: €10,284 million). On the liabilities side, the fair value of the hedging instruments is €19,135 million at 31 December 2014 (31 December 2013: €10,124 million).

The realised changes in value in 2014 and 2013 are mainly related to a restructuring of the derivatives portfolio. The other changes in value were due to new transactions, portfolio movements and yield curve changes.

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

3 Employee benefits expense

The average number of employees expressed in FTEs, including the Managing Board, was 48.5 (2013: 48.2).

	2014	2013
Wages and salaries	**4,449**	3,928
Pension costs	**205**	1,246
Social security costs	**451**	363
Other	**715**	905
	5,820	6,442

The decline in pension costs is due to adjustments made to the pension contracts.

The levy provided for in Section 32bd of the Dutch Payroll Tax Act 1964 *(Wet op de loonbelasting)*, known as the crisis levy, in the amount of €68,000 was presented under social security costs in 2013. This levy was scrapped with effect from the 2014 financial year.

The remuneration, including pension costs and excluding a number of specific elements listed below, of the members of the Managing Board amounted to €934,000 in 2014 (2013: €950,000).

Remuneration of members of the Managing Board

	Fixed remuneration	Variable remuneration (short-term element)	Pension contribution
2014			
Lidwin van Velden	210	19	57
Frenk van der Vliet	210	18	49
Ron Walkier	277	-	94
	697	**37**	**200**
2013			
Lidwin van Velden	210	21	60
Frenk van der Vliet	210	21	51
Ron Walkier	277	-	100
	697	**42**	**211**

The fixed remuneration comprises the fixed salaries for 13 months as well as an 8% holiday allowance. The members of the Managing Board are granted a taxed annual expense allowance of €2,820 each. In addition, the Bank has made a car available to them. Furthermore, they can use a staff mortgage loan discount plan. In 2014, this taxed benefit amounted to €7,000 for Lidwin van Velden (2013: €7,000) and €2,000 for Frenk van der Vliet (2013: €5,000).

The Supervisory Board has decided to definitively grant the long-term element of the variable remuneration for 2011. Managing Board Chairman Ron Walkier has waived his variable remuneration for 2014, given the prevailing suspension of dividend distributions. His variable remuneration comprises a short-term element of €24,000 and a long-term element for 2011 of €14,000.

Long-term elements of the variable remuneration for 2012, 2013 and 2014 conditionally granted to Ron Walkier amount to €14,000, €14,000 and €12,000, respectively, representing 5% of his fixed remuneration for 2012 and 2013, and 4.3% of his fixed remuneration for 2014.

The long-term elements of the variable remuneration for 2012, 2013 and 2014 conditionally granted to Lidwin van Velden amount to €10,000, €10,000 and €10,000, respectively, representing 5% of her fixed remuneration for 2012 and 2013, and 4.7% of her fixed remuneration for 2014. The Supervisory Board has decided to definitively grant the long-term element of the variable remuneration for 2011 (€10,000).

The long-term elements of the variable remuneration for 2012, 2013 and 2014 conditionally granted to Frenk van der Vliet amount to €10,000, €10,000 and €9,000, respectively, representing 5% of his fixed remuneration for 2012 and 2013, and 4.3% of his fixed remuneration for 2014.

4 Other administrative expenses

These include accommodation, office and general expenses. The remuneration of the nine (2013: nine) Supervisory Board members, which is also included in this item, amounted to €164,000 (2013: €187,000).

Remuneration of members of the Supervisory Board

	2014	2013
Age Bakker	**31**	22
Else Bos	**21**	22
Dolf van den Brink	**11**	36
Peter Glas	**17**	16
Sjaak Jansen	**7**	19
Victor Goedvolk	**13**	23
Maurice Oostendorp	**22**	15
Albertine van Vliet-Kuiper	**19**	13
Berend-Jan van Voorst tot Voorst	**23**	21
	164	187

The above amounts include membership fees for committees, general expense reimbursements, health insurance premiums and travel expense reimbursements. They exclude VAT where applicable.

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.

	2014	2013
Audit of the financial statements	**299**	400
Other assurance engagements	**220**	222
Other non-assurance services	**-**	540
	519	1.162

The increase in costs relating to the audit of the financial statements and other non-assurance services in 2013 is due to additional audit procedures performed due to the launch of a management information system, the introduction of new hedge accounting models and the changes made to the valuation of derivatives.

5 Contribution to Stichting NWB Fonds

In 2014, a contribution of €500,000 (2013: nil) was made to Stichting NWB Fonds. Established in 2006, the fund serves as a source of finance of and for water boards in shaping their international partnerships. It offers them the financial means to contribute to solutions to global water issues in developing countries, based on their core tasks and core values. The Association of Regional Water Authorities nominates the majority of members of the board of Stichting NWB Fonds.

6 Depreciation

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 Bank tax

NWB Bank has been liable for bank tax with effect from October 2012. The amounts for 2014 and 2013 were based on the balance sheets at year-end 2013 and 2012, respectively, and charged to profit for 2014 and 2013, respectively.

8 Income tax expense

	2014	2013
Profit before income tax	**70,175**	50,137
Income tax at 25.0%	**17,544**	12,528
Non-deductible expenses relating to bank tax and resolution levy	**3,644**	3,716
Other non-deductible expenses and adjustments for prior financial years	**-9**	-
Income tax expense	**21,179**	16,244
Effective tax burden (%)	**25.0%**	25.0%

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

	2014	2013
Current tax		
For the current financial year	**-3,393**	-28,121
Income tax adjustments for prior financial years	**-**	-
	-3,393	-28,121
Deferred tax		
Release of deferred tax asset arising when the Bank first became liable to tax	**2,330**	3,942
Release/addition relating to provision for pensions	**-550**	-1,094
Income tax on income and expense recognised directly in equity	**690**	1,304
Results from "basisrentelening" loans deferred for tax purposes	**-786**	-786
Change due to unrealised changes in value and changes in measurement	**22,888**	40,999
	24,572	44,365
Income tax expense	**21,179**	16,244

The current tax charges for 2014 and 2013 were lower than those based on the statutory tax rate of 25.0%. owing mainly to the tax effects of losses incurred on account of the derivatives portfolio restructuring. Another factor is the release of the difference in measurement of assets and liabilities when the Bank first became liable to tax as at 1 January 2005.

9 Cash, cash equivalents and deposits at the Central Bank

This item consists of legal tender and on-demand and other balances at the Dutch Central Bank (De Nederlandsche Bank, DNB) and the ECB.

10 Banks

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

This item can be broken down as follows.

	2014	2013
Balances payable on demand	**199**	124
Receivables under collateral arrangements	**10,174,161**	6,249,500
Total	**10,174,360**	6,249,624

11 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 Dutch public authorities, and to government-controlled public limited liability companies and other businesses or institutions with delegated government duties.

Changes in loans and receivables were as follows.

	2014	2013
Balance as at 1 January	**57,385,229**	59,197,322
Newly granted	**19,882,621**	17,721,738
Redemptions	**-20,616,190**	-16,256,352
Value adjustment for fair value hedge accounting	**8,001,838**	-3,283,475
Value adjustment for separated derivatives embedded in loans and receivables	**12,127**	5,996
Balance as at 31 December	**64,665,625**	57,385,229

Loans granted and repaid are both short-term and long-term loans and receivables.

Breakdown of loans and receivables by nature of the receivable:

	2014	2013
Receivables from or under guarantee from the Dutch government	**50,700,417**	51,454,156
Other loans to and receivables from the public sector and others	**349,237**	329,067
Value adjustment for fair value hedge accounting	**13,617,894**	5,616,056
Fair value of separated derivatives embedded in loans and receivables	**-1,923**	-14,050
	64,665,625	57,385,229

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

	2014	2013
Water boards	**5,769,960**	5,684,719
Municipal authorities	**6,611,920**	7,468,339
Social housing	**33,293,991**	33,433,692
Other	**5,024,546**	4,867,406
	50,700,417	51,454,156

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

The separated derivatives embedded in the loans and receivables are separated structured components included in the interest terms.

The collateral value of the portion of the loans and receivables portfolio contributed as collateral to DNB was €12.7 billion as at 31 December 2014 (€14.1 billion as at 31 December 2013).

Loans and receivables totalling €3.1 billion (2013: €3.7 billion) have a term to maturity of less than twelve months.

	2014	2013
Loans to and receivables from former members of the Managing Board outstanding:	**294**	294

12 Interest-bearing securities

This item can be broken down as follows.

	2014	2013
Interest-bearing securities held to maturity	**3,722,616**	1,838,168
Other listed interest-bearing securities	**627,782**	488,285
Other unlisted interest-bearing securities	**10,056**	23,375
	4,360,454	2,349,828

The movement in interest-bearing securities in 2014 and 2013 was as follows:

	Public-sector bodies	**Other**	**Total**
Balance as at 1 January 2014	414,731	1,935,097	**2,349,828**
Purchases	3,142,000	1,295,968	**4,437,968**
Sales and redemptions	-1,786,970	-670,295	**-2,457,265**
Changes in value of Other interest-bearing securities	28,306	1,618	**29,924**
Balance as at 31 December 2014	1,798,067	2,562,388	**4,360,455**

The collateral value of the portion of the interest-bearing securities portfolio contributed as collateral to DNB was €0.8 billion as at 31 December 2014 (€0.8 billion as at 31 December 2013).

	Public-sector bodies	Other	Total
Balance as at 1 January 2013	520,596	887,924	**1,408,520**
Purchases	-	1,232,442	**1,232,442**
Sales and redemptions	-85,039	-174,797	**-259,836**
Changes in value of Other interest-bearing securities	-20,826	-10,472	**-31,298**
Balance as at 31 December 2013	414,731	1,935,097	**2,349,828**

Interest-bearing securities totalling €1.361 billion (2013: €507 million) have a term to maturity of less than twelve months.

13 Intangible assets

This item comprises capitalised expenses related to software. The breakdown of this item in 2014 and 2013 is as follows.

	2014	2013
Carrying amount as at 1 January	**3,389**	2,436
Additions	**599**	1,862
Amortisation	**-1,198**	-909
Carrying amount as at 31 December	**2,790**	3,389

At 31 December, the cumulative amounts were:

	2014	2013
Additions	**7,586**	6,987
Amortisation	**-4,796**	-3,598
Carrying amount as at 31 December	**2,790**	3,389

14 Tangible fixed assets

This item comprises capitalised expenses related to the office building and other equipment. Other equipment consists mainly of furniture and fittings, computer equipment and cars. The breakdown of tangible fixed assets and their changes in 2014 are as follows.

	Property in use by the bank	Other operating assets	Total
Carrying amount as at 31 December 2013	4,616	912	**5,528**
Additions in 2014	270	238	**508**
Disposals in 2014	-	-6	**-6**
Depreciation in 2014	-502	-326	**-828**
Carrying amount as at 31 December 2014	4,384	818	**5,202**

As at 31 December 2014, the accumulated balances were:

	Property in use by the bank	Other equipment	Total
Additions	9,287	6,953	**16,240**
Depreciation	-5,161	-6,135	**-11,296**
Amortised cost	4,126	818	**4,944**
Revaluations	258	-	**258**
	4,384	818	**5,202**

The breakdown of tangible fixed assets and their changes in 2013 are as follows.	Property in use by the bank	Other equipment	Total
Carrying amount as at 31 December 2012	5,078	872	**5,950**
Additions in 2013	26	392	**418**
Disposals in 2013	-	-65	**-65**
Depreciation in 2013	-488	-287	**-775**
Carrying amount as at 31 December 2013	4,616	912	**5,528**

As at 31 December 2013, the accumulated balances were:

Additions	9,017	6,721	**15,738**
Depreciation	-4,659	-5,809	**-10,468**
Amortised cost	4,358	912	**5,270**
Revaluations	258	-	**258**
	4,616	912	**5,528**

15 Other assets

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

16 Income tax

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

Income tax payable in 2014 and 2013 can be broken down as follows.

	2014	2013
2012	**0**	5,995
2013	**-28,121**	-41,527
2014	**-3,393**	0
Carrying amount as at 31 December	**-31,514**	-35,532

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

	2014	2013
Current tax expense	**-3,393**	-28,121
Advances paid	**0**	-13,406
	-3,393	-41,527

The current tax receivable for 2013 and 2014 is caused by the tax effects of losses incurred on account of the derivatives portfolio restructuring.

17 Derivative assets

This item consists of interest rate swaps and currency swaps, caps, floors and swaptions. These products are carried at fair value, including accrued interest. Generally accepted valuation models are applied, based on the most appropriate valuation curves, which include the OIS curve. In addition, effective 2013, valuation also included what is known as a credit value adjustment.

Breakdown by remaining term to maturity of fair values as at 31 December 2014:

	<3 months	**3-12 months**	**1-5 year**	**>5 year**	**2014 Total**
Interest rate swaps	978	35,217	848,262	2,428,572	**3,313,029**
Currency swaps	391,290	924,649	1,585,426	1,191,411	**4,092,776**
Caps, floors and swaptions	-	-	62	244,743	**244,805**
Total	392,268	959,866	2,433,750	3,864,726	**7,650,610**

Breakdown by remaining term to maturity of fair values as at 31 December 2013:

	<3 months	3-12 months	1-5 year	>5 year	2013 Total
Interest rate swaps	-	42,700	842,733	1,068,732	**1,954,165**
Currency swaps	15,578	250,348	631,816	791,434	**1,689,176**
Caps, floors and swaptions	-	-	124	95,270	**95,394**
Total	15,578	293,048	1,474,673	1,955,436	**3,738,735**

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

This item can be broken down as follows.	2014	2013
Loans taken out at banks	**10,655**	63,717
Value adjustment for fair value hedge accounting	**2,253**	2,644
Liabilities under collateral arrangements	**1,262,720**	456,630
	1,275,628	522,991

20 Funds entrusted

This item consists of liabilities due to parties other than banks, including *Namensschuldverschreibungen* and *Schuldscheinen*. This item can be broken down as follows.

	2014	2013
Funds entrusted	**4,481,648**	3,960,964
Value adjustment for fair value hedge accounting	**843,744**	-79,917
	5,325,392	3,881,047

21 Debt securities

This item, which consists of negotiable interest-bearing debt instruments, can be broken down as follows.

	2014	2013
Bond loans	**51,729,021**	46,208,325
Short-term debt securities	**8,805,920**	9,391,642
Value adjustment for fair value hedge accounting	**2,886,029**	1,436,278
Fair value of separated derivatives embedded In debt securities	**-243,285**	-103,853
	63,177,685	56,932,392

Of the total amount in long-term debt securities issued, €9.9 billion (2013: €10.9 billion) carries a variable interest rate. Debt securities totalling €19.6 billion (2013: €17.6 billion) have a term to maturity of less than twelve months.

The separated derivatives embedded in the debt securities are separated structured components included in the interest terms.

22 Deferred tax liabilities

The changes in deferred tax liabilities were as follows.

	2014	2013
Balance as at 1 January	**45,538**	2,477
Release when the Bank first became liable to tax	**2,330**	3,942
Change as a result of temporary differences in the financial year recognised in profit or loss	**22,339**	39,905
Results from "basisrentelening" loans deferred for tax purposes	**-786**	-786
Balance as at 31 December	**69,421**	45,538

The change resulting from temporary differences in the financial year recognised in profit or loss relates predominantly to the difference between measurement of the financial instruments for tax purposes and that for financial reporting purposes. It also includes the different tax treatment of pension costs.

23 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 and VAT payable.

	2014	2013
Prepaid interest and redemptions	**51,901**	45,642
Other liabilities	**923**	849
	52,824	46,491

24 Derivative liabilities

This item consists of interest rate swaps and currency swaps, caps, floors and swaptions. These products are carried at fair value, including accrued interest. Generally accepted valuation models are applied, based on the most appropriate valuation curves, which include the OIS curve. In addition, effective 2013, valuation also included what is known as a credit value adjustment.

Breakdown by remaining term to maturity of negative fair values as at 31 December 2014:

31 December 2014	<3 months	3-12 months	1-5 year	>5 year	2014 Total
Interest rate swaps	28,467	62,435	1,186,017	14,331,130	**15,608,049**
Currency swaps	12,542	52,820	96,647	295,342	**457,351**
Caps, floors and swaptions	-	-	4	236,787	**236,791**
Total	41,009	115,255	1,282,668	14,863,259	**16,302,191**

Breakdown by remaining term to maturity of negative fair values as at 31 December 2013:

31 December 2013	<3 months	3-12 months	1-5 year	>5 year	2013 Total
Interest rate swaps	50,864	60,159	1,121,150	6,730,992	**7,963,165**
Currency swaps	113,507	353,359	361,015	735,593	**1,563,474**
Caps, floors and swaptions	-	1	52	90,925	**90,978**
Total	164,371	413,519	1,482,217	7,557,510	**9,617,617**

25 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.

26 Provisions

This item only comprises a provision for employee benefits. The changes in this provision were as follows.

	2014	2013
Current service cost	**884**	951
Past service cost	**-1,079**	-
Interest cost	**885**	859
Expected return on plan assets	**-664**	-650
Administrative and other costs	**75**	-10
Employee benefits expenses	**101**	1,150
Defined benefit obligation	**33,447**	25,374
Fair value of plan assets	**-24,180**	-18,309
Provision for employee benefits	**9,267**	7,065
Opening defined benefit obligation	**25,374**	26,431
Interest cost	**885**	859
Current service cost	**884**	951
Benefits paid	**-649**	-792
Past service cost	**-1,079**	-
Gain (loss) caused by changes (in assumptions) in plan assets	**8,031**	-2,075
Closing defined benefit obligation	**33,447**	25,374
Opening fair value of plan assets	**18,309**	19,578
Expected return	**664**	650
Employer contributions	**715**	878
Benefits paid	**-649**	-792
Loss/(gain) caused by changes in assumptions or actuarial losses (gains) on obligations	**5,140**	-2,005
Fair value of plan assets as at 31 December	**24,180**	18,309

The one-off gain presented under Past service cost relates to the raise in the standard pension retirement age from 65 to 67 and the adjustments to pension plans in line with market trends. The increase in the provision is due in particular by the fall in the discount rate from 3.6% at the end of 2013 to 2.1% at the end of 2014.

The projected employer contributions for 2015 to the defined benefit plans as at 31 December 2014 amount to €1.3 million (2013: €1.0 million).

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

	2014	2013
Discount rate	**2.10%**	3.60%
Expected rate of return on plan assets	**2.10%**	3.60%
Future salary/pay increases	**1.50%**	2.00%
Future pension increases	**1.50%**	2.00%

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

27 Paid-up and called-up share capital

This item consists of::

A shares

These shares have a nominal value of €115, of which 100% was required to be paid up.
Each A share carries one vote at 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 2014:	**Issued**	**Paid-up**
A shares		
Balance as at 31 December 2014 (50,478 shares)	5,805	5,805
B shares		
Balance as at 31 December 2014 (8,511 shares)	3,915	
Of which unpaid: (74% of 8,510 shares)	-2,896	
		1,019
Total paid up as at 31 December 2014		**6,824**
Total paid up as at 31 December 2013		**6,824**

28 Revaluation reserves

Movements in the revaluation reserves in 2014 and 2013 were as follows.

	Interest-bearing securities revaluation reserve	Other revaluation reserves	Total
Balance as at 1 January 2013	836	267	**1,103**
Changes in value of interest-bearing securities	-836	-	**-836**
Balance as at 31 December 2013	0	267	**267**
Changes in value of interest-bearing securities	40	-	**40**
Balance as at 31 December 2014	40	267	**307**

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 2014 did not give the Bank reason to form a revaluation reserve.

29 Other reserves

Changes in other reserves were as follows.

As at 1 January 2013	1,178,000
Appropriation of 2012 profit	40,000
Distribution for 2012	-
Changes in value as part of the pension provision	-3,000
As at 31 December 2013	1,215,000
Appropriation of 2013 profit	34,000
Distribution for 2013	-
Changes in value as part of the pension provision	-2,000
As at 31 December 2014	1,247,000

30 Profit for the year

The balance sheet is presented before profit appropriation. The proposed profit appropriation for 2014 is included under Other information.

31 Irrevocable commitments

These commitments relate to:	2014	2013
Loans granted but not yet paid	**693,494**	1,611,097
Collateral commitments	**109,700**	47,340
Increases in "klimleningen" owing to accrued interest	**1,176**	1,035
Unused current account overdraft facilities	**680,392**	560,059
Unused financing facilities	**623,870**	363,560
Guarantees issued	**2,124**	1,752
	2,110,756	2,584,843

Loans granted but not yet paid for 2013 also includes loans subject to repricing agreements (€477 million).

32 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 €75 million (2013: €76 million). With a view to imminent regulatory requirements, the Bank will take out loans – subject to specific conditions - to shore up Tier I capital in 2015.

33 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 using various assumptions relating to the discount rate and the timing and the size of the projected future cash flows. When calculating the fair value of options, generally accepted option pricing models are used.

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

Loans and receivables, and debt securities

A measurement model is used to determine the fair value of loans and receivables, and debt securities. The model is also used as a basis for internal risk reports. The principle underlying the model is a going concern approach pursuant to which the Bank 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

Derivatives are measured by applying generally accepted valuation models, based on the most appropriate valuation curves, which include the OIS curve. In addition, effective 2013, valuation also included what is known as a credit value adjustment.

The curves used reflect the price level at which the Bank closes swaps. Credit risks associated with the derivatives transactions entered into are largely mitigated by exchanging collateral.

Overview of fair values of financial instruments

The following table sets out the estimated fair value of the financial assets and liabilities and other financial instruments not disclosed on the face of the balance sheet. For comparative purposes, accrued interest is allocated to the carrying amounts. A number of 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 ammount 31-12-2014	Fair value 31-12-2014	Carrying ammount 31-12-2013	Fair value 31-12-2013
Assets				
Cash, cash equivalents and deposits at the Central Bank	**502,243**	**502,243**	153,231	153,231
Banks	**10,174,360**	**10,174,360**	6,249,624	6,249,624
Loans and receivables	**65,439,969**	**67,584,850**	60,436,928	62,557,831
Interest-bearing securities	**4,372,362**	**4,390,999**	2,361,966	2,391,886
Derivative assets	**7,650,610**	**7,650,610**	3,738,735	3,738,735
Shares	**205**	**205**	205	205
Liabilities				
Banks	**1,275,628**	**1,343,010**	580,092	579,659
Funds entrusted	**5,399,432**	**4,850,433**	3,881,047	4,194,186
Debt securities	**63,821,872**	**64,663,051**	57,552,917	57,718,196
Derivative liabilities	**16,302,190**	**16,302,190**	9,617,617	9,617,617

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 2014 (in millions of euros)	Measurement based on market prices	Measurement based on models using data available in the market	Measurement based on models using data unavailable in the market
Assets			
Other listed interest-bearing securities	552	75	-
Derivative assets	-	7,651	-
Separated derivative assets	-	-2	-
Liabilities			
Derivative liabilities	-	16,302	-
Separated derivative liabilities	-	-243	-

31 December 2013 (in millions of euros)	Measurement based on market prices	Measurement based on models using data available in the market	Measurement based on models using data unavailable in the market
Activa			
Other listed interest-bearing securities	488	-	-
Derivative assets	-	3,739	-
Separated derivative assets	-	-14	-
Liabilities			
Derivative liabilities	-	9,618	-
Separated derivative liabilities	-	-103	-

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

Financial derivatives

Notional amounts of interest rate swaps	**31-12-2014**	31-12-2013
Breakdown according to remaining terms to maturity:		
Up to one year	**6,304,825**	4,230,287
Between one and five years	**23,008,220**	20,076,188
More than five years	**45,787,393**	45,021,390
	75,100,438	69,327,865

Notional amounts of currency swaps	**31-12-2014**	31-12-2013
Breakdown according to remaining terms to maturity:		
Up to one year	**15,399,309**	16,186,002
Between one and five years	**14,207,709**	12,365,814
More than five years	**6,247,442**	6,738,603
	35,854,460	35,290,419

The notional amounts of the caps and floors total €176 million (2013: €316 million) and those of the swaptions amount to €1,005 million (2013: €1,005 million). These derivatives are included under the interest rate swaps in the previous table.

34 Risk management

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 long-term strategy aimed at solidity. The organisation is designed to identify risks at an early stage, analyse them, set sensible limits and monitor those limits. Risk management is characterised by 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 Supervisory 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 & Liability Committee (ALCO) takes decisions on the risks of the Bank.
The Managing Board, Treasury, Public Finance, Risk Management, Finance & Control, and Back Office are represented on the ALCO.

In conformity with the Dutch Banking Code, the Bank has a risk appetite in place which documents the degree and areas of risk NWB Bank is prepared to accept in realising its strategic objectives. The risk appetite is approved by the Supervisory Board.

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 amount.

The spreads payable by the Bank when raising long-term funds fluctuate against its benchmark, i.e. the swap interest rates. These spread developments lead to changes in the fair value of assets and liabilities and also have an impact on net interest income (interest received less interest paid).

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 gap analysis according to interest rate period, scenario analyses and such risk measures as (spread) DV01 (see explanation below), and Earnings at Risk are used. Outcomes from positions adopted are analysed using profit forecasts, interest margin analysis and performance analysis. This management information is also important for the decision-making process within the ALCO.

Interest rate sensitivity analysis (DV01)

NWB Bank uses DV01 (the dollar value of a basis point) as the key measure of interest rate risk. An absolute measure derived from duration, it indicates the change in price or fair value, expressed in monetary units, caused by a one basis point (0.01%) change in the yield curve. The entire portfolio is subject to a limit, which is related to qualifying capital.

The hedge portfolio's interest rate sensitivity is managed using a range of DV01 limits for different time intervals, with the aim of mitigating the risk of hedge ineffectiveness.

To manage this spread risk, a spread DV01 measure and concomitant limit apply. They indicate a maturity mismatch between funding and lending. The spread DV01 is quantified on the basis of the interest rate sensitivity of all long-term lending and funding. At year-end 2014, it was within the limit set.

Earnings at Risk

In addition to the DV01 analysis, which provides an insight into the interest rate risk for the total term of the portfolio, NWB Bank applies the Earnings at Risk measure for the short term, with the aim of setting limits to the volatility of interest income during the next 365 days. This is a simulation measure, comparing the expected net interest income or expense for the next twelve months under various interest rate scenarios with the outcome of a baseline scenario. At year-end 2014, the outcomes for those scenarios were within the limits set.

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.

31 December 2014 (in millions of euros)	Total	<3 months	3-12 months	1-5 year	>5 year
Assets					
Loans and receivables	**78,420**	16,389	4,357	17,435	40,239
Interest-bearing securities	**4,423**	2,874	808	441	300
Fixed-interest derivative assets	**55,334**	3,573	8,647	25,012	18,102
Variable-interest derivative assets	**-47,809**	-42,804	-4,338	-298	-369
Total assets	**90,368**	-19,968	9,474	42,590	58,272
Liabilities					
Banks, funds entrusted and debt securities	**71,686**	17,124	10,392	25,411	18,759
Fixed-interest derivative liabilities	**56,295**	430	2,261	16,012	37,592
Variable-interest derivative liabilities	**-40,375**	-35,239	-5,152	6	10
Total liabilities	**87,606**	-17,685	7,501	41,429	56,361
Total assets less liabilities in 2014	**2,762**	-2,283	1,973	1,161	1,911
Total assets less liabilities in 2013	**2,320**	75	766	686	793

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 performs scenario analyses to gain an additional insight into the interest rate risk. A common scenario is to calculate the changes in the fair value of equity in the event of a parallel shift in the yield curve of -100 basis points (bp) and +100 bp. The table below illustrates the effects of such sudden changes in interest rates as at 31 December 2014 in terms of the resulting fair value changes, distinguishing between immediate and future effects on financial results. The long-term effect merely indicates an opportunity loss.

In other words, if NWB Bank had fully hedged its interest rate position, its future financial results would have been €95 million higher (2013: €57 million higher) in the event of a 100 bp rise in interest rates.

(in millions of euros)	Total change in fair value	Immediate effect on profit or loss	Long-term effect on profit or loss
Interest rate shock of +100 bp	-78	17	-95
Interest rate shock of -100 bp	34	-7	41

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

NWB Bank has an AA+/Aaa credit rating identical to that of the State of the Netherlands. With this credit rating, under normal circumstances, NWB Bank should always easily be able to cover its current and future liquidity requirements in the market. In case of market stagnation, NWB Bank has sufficient means, amongst others in the form of liquid assets and collateral pledged with DNB to repay loans and finance new loans at all times. NWB Bank currently has an ample collateral position at DNB. Virtually the entire loans portfolio of NWB Bank is accepted as collateral at DNB. The collateral value of the portion of portfolio contributed as collateral to DNB was €13.5 billion as at 31 December 2014 (€14.9 billion as at 31 December 2013). However, NWB Bank did not call on this position. In terms of short-term funding, NWB Bank mainly relies on the commercial paper market. The bank uses a Euro Commercial Paper programme capped at €15 billion and a U.S. Commercial Paper programme capped at $10 billion. The Bank has the highest short-term ratings (A-1+/P-1) with respect to those programmes. As at 31 December 2014, €8.8 billion (as at 31 December 2013: €9.4 billion) in commercial paper was outstanding.

The liquidity position is monitored daily. The aim of liquidity management is to ensure that there are sufficient funds available for the Bank to meet not only foreseen, but also unforeseen financial commitments. The Bank's management is informed daily by means of a liquidity gap analysis, containing differences between the cash flows receivable and payable. The liquidity position is subject to a system of limits.

The framework for liquidity risks was modified in some respects in the year under review, prompted in part by the Basel III liquidity ratios, the Liquidity Coverage Ratio and the Net Stable Funding Ratio. These ratios and the associated minimum requirements are prescribed under binding EU law (CRD IV/CRR), which took effect on 1 January 2014. At year-end 2014, NWB Bank satisfied the minimum requirements in the area of liquidity risks that will apply in the years ahead.

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

(in millions of euros)	Total	<3 months	3-12 months	1-5 year	>5 year
Assets					
Cash, cash equivalents and deposits at central banks	**502**	502	-	-	-
Banks, loans and receivables	**90,022**	1,489	5,623	24,394	58,516
Interest-bearing securities	**4,433**	586	808	2,733	306
Intangible assets	**3**	-	-	-	3
Tangible fixed assets	**5**	-	-	-	5
Income tax	**32**	-	32	-	-
Derivative assets	**16,533**	828	1,429	4,176	10,100
Other assets	**65**	-	65	-	-
Prepayments and accrued income	**792**	-	792	-	-
Total as at 31 December 2014	**112,387**	3,405	8,749	31,303	68,930
Total as at 31 December 2013	**101,162**	4,648	7,352	27,565	61,597
Liabilities					
Banks, funds entrusted and debt securities	**80,434**	7,256	13,875	29,455	29,848
Other liabilities	**53**	-	53	-	-
Derivative liabilities	**28,069**	390	1,116	5,052	21,511
Accruals and deferred income	**734**	-	734	-	-
Provisions	**9**	-	-	-	9
Deferred tax liabilities	**69**	-	-	-	69
Equity	**1,303**	-	-	-	1,303
Total as at 31 December 2014	**110,671**	7,646	15,778	34,507	52,740
Total as at 31 December 2013	**99,336**	5,520	16,020	29,319	48,477

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 principally lends to governments and government-backed institutions. It also provides loans to water supply companies, without government guarantee, as well as, since 2013, financing government-contracted Public-Private Partnership (PPP) projects. 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, particularly with a view to increasing the liquidity portfolio, 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. 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, at a minimum, 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 credit portfolio's credit risk is limited, which is also expressed in the robust capital ratios.

The weighted credit risk (including commitments for unpaid loans) to which NWB Bank is subject in accordance with standards prescribed by the CRD IV/CRR was as follows on the reporting date:

(in millions of euros)	**Nominal 2014**	**Weighted 2014**	Nominal 2013	Weighted 2013
Central governments	**2,046**	**-**	2,772	0
Regional governments	**15,599**	**-**	15,251	0
Institutions with delegated government duties	**50,162**	**378**	43,113	360
Development banks	**63**	**-**	63	0
International organisations	**194**	**-**	10	0
Banking counterparties*	**10,174**	**292**	6,251	285
RMBS (NHG) notes*	**2,347**	**472**	1,797	384
Other	**10**	**10**	10	10
Total	**80,595**	**1,152**	69,267	1,039

* Based on ECAI rating

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 counterparty risks and potential money market lending come under the 20% and 50% weighting categories. The portfolio of RMBS notes (securitised home mortgage loans that are government-backed under the National Mortgage Guarantee (Nationale Hypotheek Garantie, NHG) scheme) comes under the 20% weighting category to the extent they concern senior A notes. A smaller portion (lower S notes) comes under the 100% weighting category. Lastly, loans provided to Dutch water supply companies are included in the 100% weighting category.

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

Loans portfolio, in nominal amounts (in millions of euros)	**2014**	2013
Water boards	**5,285**	5,040
Municipal authorities	**6,604**	6,969
Other public authorities	**337**	360
Social housing	**32,301**	32,456
Healthcare institutions	**3,695**	3,669
Other borrowers under government guarantee	**626**	521
Joint schemes	**224**	235
Government-controlled public limited liability companies	**296**	279
Other	**53**	66
	49,421	49,595

NWB Bank's borrowers as listed above are mainly public authorities and entities in social housing and healthcare to which funds are lent under the guarantee of public authorities. The Bank has never suffered a loan loss. Owing to the adequate guarantees obtained and the very limited credit risk, no losses on the loans granted are expected. There is, therefore, no provision for uncollectibility, nor were any loans written down on account of the credit risk involved. Both during the year and at the balance sheet date, arrears were low in monetary terms and of very 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) using mostly zero thresholds and exchanging collateral on a daily basis. The Bank's policy is to conclude CSAs with all counterparties and to ensure that netting agreements apply. ISDA agreements concluded with the majority of counterparties were amended to bring them more into line with the market standard for exchanging collateral (zero thresholds and daily valuation). Portfolio management, monitoring and collateral management have been stepped up over the past years with respect to individual derivatives portfolios for all counterparties, as well as for the total derivatives portfolio. This involves monitoring sensitivities in counterparty-specific portfolios and the option of novating a portfolio, or part thereof, to a central counterparty in due course. In addition, concentrations in the swap portfolio are assessed and adjusted in terms of both interest-rate sensitivities and fair value and the associated collateral balance for each counterparty. The total fair value exposure from derivatives to financial counterparties at year-end 2014 was €1,432 million, of which €1,263 million was covered by collateral pledged to the Bank (2013: €594 and €457 million, respectively). The total fair value exposure from derivatives from financial counterparties at year-end 2014 was €10,328 million, of which €10,174 million was covered by collateral provided by the Bank (2013: €6,564 million and €6,250 million, respectively).

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

(in millions of euros)

Assets	Positive fair value of derivatives	Netting with negative derivatives	Cash collateral for loans provided	Net position
Banking counterparties	7,406	-5,974	-1,263	170
Non-banking counterparties	245	-	-	245
Total for 2014	7,651	-5,974	-1,263	415
Total for 2013	3,739	-3,053	-457	229

Liabilities	Positive fair value of derivatives	Netting with negative derivatives	Cash collateral for loans provided	Net position
Banking counterparties	-16,302	5,974	10,174	-154
Non-banking counterparties	-	-	-	-
Total for 2014	-16,302	5,974	10,174	-154
Total for 2013	-9,618	3,053	6,250	-315

No CSAs were entered into with non-banking counterparties, which means netting does not apply to those parties.

Settlement risk refers to the risk that, in settling a transaction, a counterparty fails to meet its obligations while the Bank meets its own. Instances in which this may happen include when the notional amount of a foreign exchange swap is ultimately exchanged, which is used to repay associated foreign currency funding. The resulting currency risk is hedged one-on-one using foreign currency swaps. The Bank monitors settlement risks that arise chiefly upon payment and receipt of foreign currency.

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.

CCY	Asset	Liability	Derivative	2014 Total	Asset	Liability	Derivative	2013 Total
AUD		-2,152	2,152	-		-1,597	1,597	-
CAD		-512	512	-		-503	503	-
CHF		-4,450	4,450	-		-5,550	5,550	-
GBP		-2,871	2,871	-		-2,754	2,754	-
HKD		-100	100	-		-800	800	-
JPY		-234,600	234,600	-		-359,954	359,954	-
NOK		-4,125	4,125	-		-4,125	4,125	-
NZD		-165	165	-		-305	305	-
SEK		-2,450	2,450	-		-3,896	3,896	-
USD	131	-32,150	32,019	-	134	-29,755	29,621	-

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. All important operating processes were reviewed and updated in the year under review.

New products or services

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 Managing Board is responsible for the effectiveness of the product approval process. 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, integrity, 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 ongoing training through classes and seminars and contracts have been entered into with external parties for back-up, recovery and contingency facilities. In the event of a disaster, NWB Bank has access to an external location where it can continue all its core activities. Using a data warehouse, the Bank has a reliable management information system available based on integrity for generating reports that meet its business demands. In addition, the firewall infrastructure is up to date, so as to offer robust protection against cybercrime and other irregularities that might affect NWB Bank's ICT infrastructure. The Bank's information security policy is based on ISO-27002 (NEN), the internationally recognised information security standard.

Outsourcing

NWB Bank has 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. As a result, 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.

The members of the Managing and Supervisory Boards took the banker's oath in 2013, pursuant to the Dutch Oath or Promise (Financial Sector) Regulation *(Regeling eed of belofte financiële sector)*, which came into effect on 1 January 2013.

In compliance with the new Dutch Banking Code, which took effect on 1 January 2015, the banker's oath (including the related Code of Conduct and a disciplinary system) will also be taken by all bank employees. The members of the Managing and Supervisory Boards will sign a declaration regarding disciplinary rules. NWB Bank's Code of Conduct will be updated on the basis of the new Banking Code. The Code of Conduct forms part of the employment contracts, and it was posted on both the Intranet and the Bank's website.

NWB Bank has assigned some of the compliance-based duties to the Legal & Compliance Department and, where supervision of compliance with the Insider Regulation is concerned, to an external party. The external supervisor reports to the Managing Board and the Supervisory Board, while the internal

Compliance Officer reports directly to the Managing Board. These reporting lines confirm the value that the Bank attaches to the internal supervision and the work of both Compliance Officers. The supervision-based rules and code 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 2014, NWB Bank complied with all the external and internal capital requirements. It seeks to maintain the highest possible credit rating, which is equal to that of the State of the Netherlands. On 29 May 2014, Moody's assigned a negative outlook to 82 European banks, including NWB Bank, in the light of an investigation into the consequences of the implementation of the Bank Recovery and Resolution Directive (BRRD). On 17 March 2015, Moody's presented its definite findings in combination with the application of its new methodology for banks. For NWB Bank, this means the negative outlook has been changed into a stable outlook, with its credit rating - equal to that of the State of the Netherlands – remaining unchanged. NWB Bank is likewise of the opinion that the entry into force of the BRRD does not prompt changes to the Bank's risk profile.

Standard and Poor's (S&P) confirmed the Bank's AA+ rating following its annual assessment. In accordance with its Government Related Entity (GRE) criteria, S&P believes that there is an almost certain likelihood of extraordinary support from the State of the Netherlands should NWB Bank face financial difficulties, which is why it has equated the Bank's rating with that of the State of the Netherlands. Arguing that NWB Bank plays a critical role in the Dutch public sector and has an integral link with the government, S&P considers it as an extension of the government.

Effective 1 January 2014, the Basel III principles for EU banks were given a statutory basis through the amended Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR). Being EU law, the CRR has immediate statutory effect in the Netherlands. With CRD IV being an EU Directive "only", having no direct statutory effect in the EU Member States, the Dutch Minister of Finance has embedded CRD IV into Dutch law.

On 4 November 2014, the Single Supervisory Mechanism (SSM) became effective for NWB Bank. The SSM is a step towards further European harmonisation. It encourages the use of a single set of rules and standards (single rulebook) serving as a basis for the prudential supervision of credit institutions to make the eurozone's banking industry more robust. Supervision is performed by the ECB in tandem with the national supervisory authorities of participating Member States.

The CRD IV has three pillars.

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
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, S&P and/or Fitch[1]. The market risk concerns risks in the trading portfolio and currency and commodity risks. NWB Bank does not keep a trading portfolio. Since 1 January 2014, the CRR contains an additional capital requirement. This involves an additional capital charge for the risk arising from a change in the creditworthiness of counterparties with which the Bank has derivatives positions, complementing the existing capital charge for the risk of counterparties remaining in default. This Credit Valuation Adjustment (CVA) is calculated using a standard formula based on exposure, rating and average terms of derivatives positions entered into with counterparties, among other things. 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 rules limit the concentration risk of a bank. NWB Bank's large positions are mainly connected to the swap portfolio. These positions are limited as much as possible by concluding CSAs and applying netting.

Calculation of the Pillar 1 BIS ratio as at the reporting date:

	2014	2013
Equity excluding revaluation reserves and addition of profit to reserves	**1,254***	1,256
Revaluation reserves (Tier 2 capital)	**0**	0
Intangible fixed assets	**-3**	-
Qualifying capital (A)	**1,251**	1,256
Weighted credit risk	**1,152**	1,039
Capital charge under CVA	**455**	
Weighted operational risk	**173**	206
Risk-weighted assets (B)	**1,780**	1,245
BIS ratio (A/B)	**70%**	101%

* In 2014, equity presented excludes net profit for the current financial year. In 2013, equity presented includes net profit for the current financial year.

1) See Article 1 Joint Consultation Paper (EBA, 06-03-2015) Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps under Article 109 (a) of Directive 2009/138/EC

Qualifying capital, which almost exclusively comprises Tier-1 capital, went down by €5 million to €1,251 million in 2014 (31 December 2013: €1,256 million). The ratio drop is mainly attributable to the introduction of the new capital requirements under the CVA.

2) Pillar 2

The SREP is an evaluation by DNB, 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 profiles. NWB Bank applies stress tests both on a regular basis and when prompted by extraordinary events.

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 in line with the objective of IFRS 7.

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.

35 Information on related parties

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

For more information on the remuneration of, and loans to, members of the Supervisory Board and the Managing Board, as well as the contribution to Stichting NWB Fonds, please refer to Notes 4 and 5.

As at 31 December 2014, an amount of €5,620 million in loans had been granted to shareholders on market terms (31 December 2013: €5,400 million).

36 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.

37 Members of the Managing Board and Supervisory Board

Managing Board

Ron Walkier
Lidwin van Velden
Frenk van der Vliet

Supervisory Board

Age Bakker
Else Bos
Peter Glas
Maurice Oostendorp
Albertine van Vliet-Kuiper
Berend-Jan baron van Voorst tot Voorst

The Hague, the Netherlands
18 March 2015

Other information

Independent auditor's report

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

Our opinion

We have audited the financial statements 2014 of Nederlandse Waterschapsbank N.V. (NWB Bank), based in The Hague. The Netherlands.
In our opinion the financial statements give a true and fair view of the financial position of NWB Bank as at 31 December 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Netherlands Civil Code. The financial statements comprise:

1 the balance sheet as at 31 December 2014
2 the profit and loss account for 2014 and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of NWB Bank in accordance with the *Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)* and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the *Verordening gedrags- en beroepsregels accountants (VGBA).*

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

Materiality

Misstatements can arise from fraud or error and will be considered material, if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for NWB Bank's financial statements at EUR 8 million. The materiality has been determined with reference to a benchmark of interest (interest margin) which we consider to be a key consideration for stakeholders in assessing the financial performance of NWB Bank. The stability of the interest as the source of income, combined with a low and more volatile character of the profit before tax, resulted in our choice to select interest as the most appropriate benchmark for the materiality. The materiality is 7% of this benchmark.

We agreed with the Audit and Risk Committee of the Supervisory Board to report the following misstatements that we identified through our audit: (i) all material corrected misstatements (ii) uncorrected misstatements with a value in excess of EUR 400,000 and (iii) other misstatements below that threshold that we believe warranted reporting on quantitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the Managing Board and the Supervisory Board of NWB Bank, but are not intended to represent all matters that were discussed with them.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Valuation of derivatives

NWB Bank has substantial positions in derivatives as part of its policy to hedge interest rate risk and currency risk. As at 31 December 2014, derivatives assets amounted to EUR 7.6 billion and derivatives liabilities EUR 16.2 billion. Derivatives are measured at fair value. The fair value of the derivatives is subject to estimation uncertainty – as judgment is applied to estimate fair value.

As disclosed in note 33, NWB Bank does not hold level 3 type derivatives, being derivatives with the highest level of valuation uncertainty. For the level 2, model based valuations, we tested the appropriateness of the models used and challenged the underlying assumptions and the reliability of the data used as input to these models. Moreover, fair value testing has been performed by our internal valuation specialists for a broad selection of derivative contracts using a mark-to-model approach. The selection was based on those contracts where we expect a higher risk of material misstatement based on product type and maturity. We selected individual contracts to achieve sufficient coverage of significant market parameters used in the calculation of market values.

Overall, our assessment is that the assumptions used and resulting estimates resulted in a balanced measurement of the fair value of derivatives.

Hedge accounting

Hedge accounting is applied by NWB Bank to reduce the accounting mismatch between the accounting of assets/liabilities and the accounting of the related derivative contracts. Hedge accounting adjustments as at 31 December 2014 lead to an increase of EUR 13.6 billion in assets and an increase of EUR 3.4 billion in liabilities. Given the substantial derivatives positions of NWB Bank and the complexity of the accounting requirements for hedge accounting we assessed the application of hedge accounting as a key audit matter.

NWB Bank applies a number of complex hedge accounting models. The proper functioning of the hedge accounting models and the integrity of the data used as input in these models is of high importance to safeguard accurate calculations of hedge accounting adjustments.

Our audit approach includes the assessment of the adequacy of the hedge documentation, detailed testing of individual positions and data used in hedge accounting models and an assessment of the internally performed hedge effectiveness testing.

We concluded from our work performed that the hedge accounting processes have resulted in an appropriate treatment of hedge accounting in the NWB Bank's financial statements.

Credit risk on loans and receivables guaranteed by the State

NWB Bank's primary business is to provide loans to the public sector in the Netherlands. Loans and receivables amounts to EUR 65 billion as at 31 December 2014 and forms a very substantial portion of the balance sheet. A large majority of the loans and receivables (99%) is guaranteed by the State through government backed agencies. We assessed the adequacy of the legal guarantee structure and tested on a sample basis that for these loans granted in 2014 that the appropriate guarantee documentation is in place. From this assessment, we conclude that these loans and receivables are fully recoverable and appropriately measured in the financial statements. Furthermore, the information disclosed in the financial statements in respect of credit risk on loans and receivables guaranteed by the State is sufficient.

Reliability and continuity of the electronic data processing

NWB Bank is dependent on its IT systems for the continuity of its operations and reliable financial reporting. In particular, the source system, the datawarehouse set up, the payment system and the hedge accounting application are most important to us.

We have assessed the reliability and continuity of the IT systems, to the extent necessary within the scope of our audit. For that purpose we included IT-auditors in our audit team. Our procedures included the assessment of developments in the IT-domain and testing of the relevant internal controls with respect to IT-systems and processes, insofar as relevant to our audit. For the outsourced payment system, we obtained an audit report from another auditor regarding the relevant internal controls.

Overall we concluded the electronic data processing to be effectively functioning for the purpose of our audit of the financial statements.

Responsibilities of Management Board and the Supervisory Board for the financial statements

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

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.
The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Report on other legal and regulatory requirements

Report on the Management Board report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the Management Board report and other information),:

- We have no deficiencies to report as a result of our examination whether the Management Board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the Management Board report, to the extent we can assess, is consistent with the financial statements.

Engagement

The General Meeting of Shareholders has delegated the decision to appoint the external auditor to the Supervisory Board. On 26 October 2006, we were appointed as external auditor of NWB Bank, as from the audit for the year 2007, and operated as auditor since then.

Amstelveen, the Netherlands
18 March 2015

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 shareholders' equity of the company exceeds the amount of that part of its issued capital which is paid up and called up, plus the reserves which must be kept by law or the Articles of Association.

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

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

4 To the extent that the company has profits, the Managing Board, subject to the approval of the Supervisory Board, may with due regard for the provisions of paragraphs 1 and 2 of this article resolve to distribute an interim dividend on the basis of an interim statement of the company's financial position as provided for in Section 105, subsection 4 of Book 2 of the Dutch Civil Code.

5 On a resolution proposed by the Managing Board with the approval of the Supervisory Board, the shareholders in general meeting can decide to distribute to shareholders a dividend or interim dividend other than in cash chargeable to the part of the profit to which they are entitled.

Proposed profit appropriation

(in thousands of euros)		2014		2013
Profit for the year		**48,997**		33,893
The proposed profit appropriation is as follows.				
Cash dividends on A shares	0%	**-**	0%	-
Cash dividends on B shares	0%	**-**	0%	-
		-		-
Added to the reserves on the approval of the Supervisory Board		**48,997**		33,893
		48,997		33,893

List of shareholders at 1 January 2015

	Number of A shares of €115 each	Number of B shares of €460 each
Aa en Maas Water Board	627	301
Amstel, Gooi en Vecht Water Board	281	60
Brabantse Delta Water Board	2,016	483
Delfland Water Board	755	60
De Dommel Water Board	533	360
Fryslân Water Board	3,309	100
Groot Salland Water Board	1,588	195
Hollandse Delta Water Board	1,893	143
Hollands Noorderkwartier Water Board	4,399	204
Hunze en Aa's Water Board	1,915	175
Noorderzijlvest Water Board	1,107	170
Peel en Maasvallei Water Board	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 Noord-Brabant	33	40
Province of Noord-Holland	43	60
Province of Utrecht	43	60
Province of Zeeland	15	20
Province of Zuid-Holland	33	40
Reest en Wieden Water Board	648	37
Rivierenland Water Board	3,968	437
Roer en Overmaas Water Board	535	146
Rijn en IJssel Water Board	5,666	345
Rijnland Water Board	4,858	289
Scheldestromen Water Board	4,380	166
Schieland en de Krimpenerwaard Water Board	610	430
State of the Netherlands	1,208	3,333
De Stichtse Rijnlanden Water Board	224	47
Vallei en Veluwe Water Board	631	88
Vechtstromen Water Board	7,158	423
Zuiderzeeland Water Board	42	26
	50.478	8.511

Overview of compliance with the principles of the Dutch Banking Code

During the past period, NWB Bank has implemented "Future-Oriented Banking". In early 2015, the Regulations for the Managing Board, the Supervisory Board, the Audit and Risk Committee and the Remuneration and Appointment Committee were revised accordingly. The Corporate Governance chapter in the Annual Report 2014 addresses a number of aspects of the Dutch Banking Code applicable since 1 January 2015. The Annual Report 2015 will contain an overview of the principles of the Banking Code as they will have applied since 1 January 2015.

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 five and at most nine members. The number of Supervisory Board members shall be determined by the shareholders in general meeting. During the annual general meeting of 23 April 2014, the shareholders resolved to set the number of members at seven. 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

3 Executive Board (Managing Board)

3.1 Composition and expertise

3.1.1 Managing Board[5] Regulations, 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, april 2014
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, november 2013
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 NWB 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 and 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[6] provides that the Internal Audit Department (IAD) is directly accountable to the Chairman of the Managing Board. It 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 (De Nederlandsche Bank, DNB)/European 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[7], paragraph 1.3

6.3.4 NWB 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

7 Remuneration policy of NWB Bank, November 2014

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