

Nederlandse Waterschapsbank N.V. (NWB)



INTRODUCTION

The Dutch Social Housing market and NWB's approach to Affordable Housing

In the Netherlands Social Housing Organizations (SHO) provide social and affordable housing to people with low incomes, or other vulnerabilities, that have difficulties to access dwellings on the market. SHO's are registered private not-for-profit associations or foundations. They are regulated and intrinsically dedicated to perform social housing activities. As registered entities their field of activities is limited to social housing and livable communities.

According to the Dutch legislation for registered SHO associations of July 1st 2015, the purpose of the associations is to provide affordable housing to people with a low income. To secure governance, SHO's have been asked to secure administrative and/or legal segregation between their services of general economic interest and other activities. Additionally, The Dutch State has established a special supervisory body to, among others; supervise on risk management, financial management, governance and integrity.

The Dutch system for affordable housing provides affordable housing to the lower income part of the Dutch population and other vulnerable groups.

The average social housing rent for a dwelling was EUR 515 per month in 2015. The rent is capped at EUR 710.68 for social dwellings. As a comparison the average rent in the private market in Amsterdam is above EUR 1,200 per month.¹ In 2015, an average household in the Netherlands spent one third of its disposable income on housing costs. Compared to 2012 and 2009, the housing costs increased for tenants while they fell for home owners. In 2015, total housing costs constituted an average of 28 percent of home owners' disposable income. Tenants spent on average 39 percent of their income on housing costs².

The yearly allocation of social dwellings by SHO's is regulated according to these priority criteria:

- A minimum of 80% of the SHO's yearly lettings of social dwellings must be provided to households with a maximum household income of EUR 35,739 (2016) per annum.

¹ In 2016

² Statistics Netherlands (CBS) <https://www.cbs.nl/en-gb/news/2016/14/small-and-relatively-expensive-housing-in-amsterdam>

- A maximum of 10% of the SHO's yearly lettings of social dwellings may be provided to households with a household income between EUR 35,739 and EUR 39.874 (2016) per annum³.
- A maximum of 10% can be rented out in priority taking into account other social criteria for households who experience difficulties in finding a suitable dwelling due to personal, social or other constraints - such as physical or mental disabilities. (the "Special Need Program").
- Furthermore, households with lesser financial means with a right to receive rent allowance from the state must be allocated a dwelling with lower rents within the social stock⁴. Exemptions are possible to a maximum of 5% of this category of households per social housing provider.

When social housing activities are classified as a Service of General Economic Interest in accordance to the definition in the Dutch Housing Act, a guarantee can be applied from the Government guaranteed Social House-building Guarantee Fund (WSW). WSW provides guarantees to lenders granting loans to SHO's for social housing projects and other properties with a social or public function.

When defining social housing it is mostly reflecting a combination of income levels or other vulnerabilities of target groups (subjects), affordable rental levels of social dwellings (objects) and the social purpose of the housing provider. However, besides the development and management of social dwellings, other areas like diversity, integration, living quality and community management are equally important to ensure a long lasting social and financial sustainability.

In the Netherlands there has been successful implementation of social integration through a well-established infrastructure of large stocks of affordable housing for different income groups, providing affordable high quality living for lower income groups of the society.

NWB, as a public lending institute, is a large lender to the Dutch SHO's social housing assets. With an ambition to raise further awareness around the Dutch social housing system and initiate further investor interest for social housing in general, NWB will issue an Affordable Housing Bond to re-finance the lending to social housing. The Dutch system, apart from securing housing for those in need, also targets a larger group of tenants, like youth and older people, who are facing challenges to find affordable living. Through high living quality, the Dutch housing system aim to secure a smooth integration of populations.

NWB will reassess their definition of affordable housing, and have a new assessment done, if any material changes are done to the legislation.

SPECIAL ACCOUNT

An amount equal to the net proceeds of the issue of the Notes will be credited to a special budget account that will support NWB lending for Eligible Projects. As long as the Notes are outstanding and the special account has a positive balance, funds will be deducted from the special account and added to the Social Housing lending pool in an amount equal to all disbursements from that pool made during such quarter in respect of Eligible Projects. This will be done on a continuously basis and audited annually.

³ This option exists until 2021. Then the government may decide to increase the 80%-income level to 90%.

⁴ EUR 575.87 per month for 1 and 2 person households and EUR 618.24 per month for multi-person households

Despite that 100% of the lending is done to SHOs social housing stock, NWB will not qualify more than 80% of the lending to the Housing Associations social housing stock as eligible assets, since some of the tenants might improve their income but continue living in the social housing stock

ELIGIBLE PROJECTS

"**Eligible Projects**" means a selected pool of loans funded, in whole or in part, by NWB to invest in social housing activities by SHO's in The Netherlands as determined by The Social House-building Guarantee Fund (WSW). Proceeds from The Social Housing Bonds will exclusively fund NWB lending to SHO's, and only, if such a loan has been approved and Guaranteed by the WSW. These social housing activities are services of general economic interested and are regulated in Dutch law as core tasks of SHO's.

Eligible Projects

- Maximum of 80% of loans provided to Housing Associations loans (only loans approved and guaranteed by the WSW)
 1. 80% of the Housing Association's Social Housing Letting must be given to households with a maximum income of EUR 35,739 per annum
 2. Rents are capped at EUR 710.68 per month
 3. 10% of the social housing Stock are in "the Special Need Program"

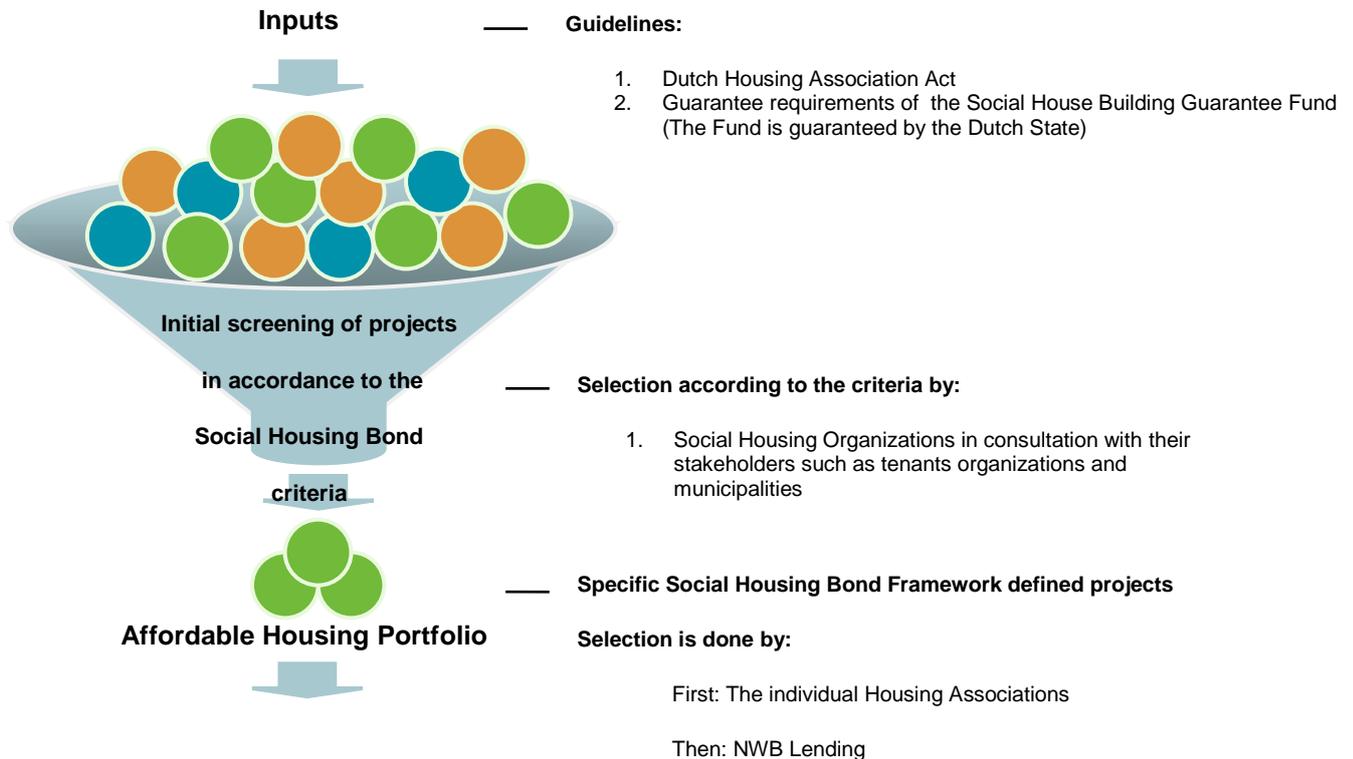
SELECTION OF ELIGIBLE PROJECTS

The Eligible Projects are loans to the Dutch Housing Associations with a guarantee from the Social House-building Guarantee Fund (WSW) and will be selected by the Lending Department. The Housing Associations will use the funds to finance and refinance social housing projects according to the Dutch law. All eligible loans need an approval in accordance with the process described in the introduction. NWB treasury will qualify lending inside a given calendar year as eligible assets for a given issuance of a social housing Bond in the same calendar year unless a potential divergence is clearly defined in connection with the offering.

MONITORING

NWB treasury will on a monthly basis review the social housing portfolio and will ensure that there is a prudent balance between the aggregated lending to eligible housing Association loans and NWB social housing funding.

Social Housing Bond Project Selection Process flowchart



TRANSPARENCY & IMPACT REPORTING

To enable investors to follow the development and provide insight to prioritised areas, NWB will provide an annual investor letter to investors through its homepage, including:

- 1) A list of Loans;
- 2) A balance of:
 - a) Outstanding Social Housing Bonds;
 - b) Aggregated lending to eligible projects, and;
 - c) Non-disbursed cash
- 3) A selection of lending examples, and;
- 4) A review of impact indicators from the overall social housing system, where available -like⁵:
 - a. The total number of primary target of low-income households
 - b. Number of new rental contracts for social dwellings to primary target of low-income households per year:

⁵ Source: Aedes

c. Affordability indicator:

d. Energy and environment:

e. Investments in social dwellings by SHO's⁶:

5) A summary of the NWB Social Housing Bond development.

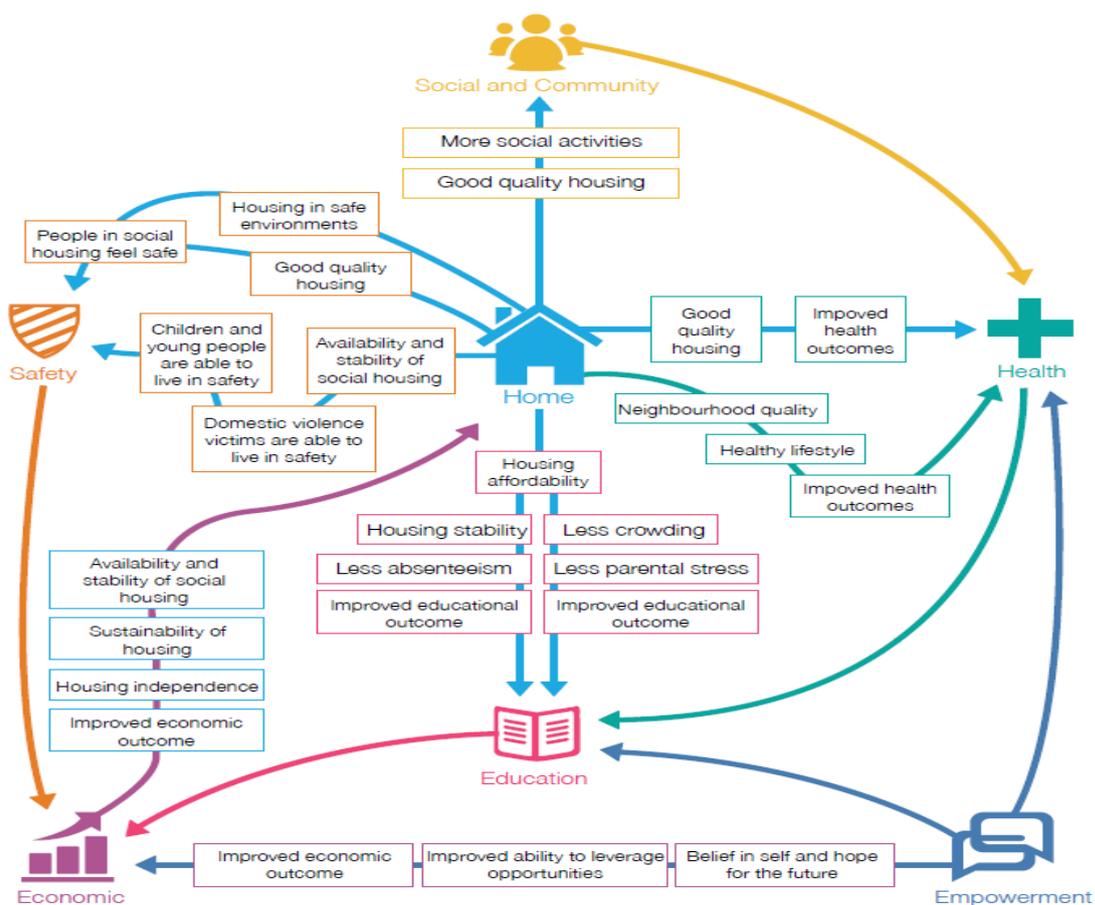
NWB will to the extent possible try to illustrate impact of the Dutch Social Housing market through specific examples.

Further information:

NWB <https://www.nwbbank.com/csr-reporting-policies.html>

Below: Graphic illustrating the impact streams of the social housing system

Figure 1: Outcome model for social housing



⁶ Source: Facts and figures, Aedes https://dkvwg750av2i6.cloudfront.net/m/6a82b6001e710f31/original/Facts-and-figures_2017.pdf