

Pillar 3 Disclosure

NEDERLANDSE WATERSCHAPSBANK N.V.

2019



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PILLAR 3 DISCLOSURE

1 INTRODUCTION

The Basel Committee on Banking Supervision (“BCBS”) has published Pillar 3 disclosure requirements, lastly revised in its **updated framework of December 2018**. These requirements, together with the updates published in January 2015 and March 2017, complete the Pillar 3 framework. The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. With this document and the accompanying additional pillar 3 disclosure documents, NWB Bank fulfils the regulatory disclosure requirements following from the BCBS framework.

2 STRATEGY

NWB Bank is a national promotional bank and a leading financial services provider for the Dutch public sector with a focus on water and renewable energy. The bank arranges short-term and long-term loans for water authorities, municipalities, provinces, social housing, healthcare, educational institutions, public-private partnerships and activities in the field of water supply and renewable energy. NWB Bank funds its activities on the international money and capital markets on the back of a very strong financial position and ratings from Moody’s (Aaa) and Standard & Poor’s (AAA). The bank’s objective is to provide the required funding subject to the most favourable terms and tailored specifically to the individual client. As a significant bank, NWB Bank is supervised by the European Central Bank (ECB).

Since the bank was founded in 1954, its shares are held exclusively by Dutch public authorities. Its position as a bank whose shares are owned by the Dutch public authorities 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 its strategy.

3 PILLAR 3 DISCLOSURE

Pillar 3 disclosure requirements are based on Pillar 1 requirements. The objective of NWB Bank’s disclosure policies is to practice maximum transparency in a practicable manner.

This Pillar 3 disclosure document fulfils the **Pillar 3 disclosure requirements of the Capital Requirements Regulation** (“CRR”), including the EBA guidelines.

The bank’s annual report shows most of the Pillar 3 disclosure items. Further information can be found in the Additional Pillar 3 information document, which is also published on the bank’s website.

4 INTERNAL PROCESS

For assessment of the appropriateness of its Pillar 3 disclosure, the following departments or parties of NWB Bank are involved:

- Executive Committee – approve the information;
- Finance & control – prepare the financial reporting;
- Risk management – prepare information following from its role of managing the risks associated with the banking operations;
- Internal audit – check on reliability and on consistency with financial statements;
- Legal – assess compliancy with applicable regulations;
- Compliance – verify the assessment on compliancy.

The bank's financial statements are audited by an external auditor, who provides an opinion on the financial statements. The half-year report is reviewed by the external auditor. The internal audit department has an independent verification and control function in support of the Executive Committee, Supervisory Board, Audit Committee and Risk Committee.

5 FREQUENCY OF DISCLOSURE

NWB Bank publishes the required Pillar 3 disclosures on an annual basis in conjunction with the publication of the financial statements. In light of special circumstances, the bank may publish some or all disclosures more frequently than annually. Such more frequent disclosure could be based on amongst others the developments in the international financial markets, the development of the bank's financial position or a change in the bank's risk profile particularly with respect to any impact on own funds or capital requirements.

6 MEANS OF DISCLOSURE

With reference to Article 434 CRR, NWB Bank shall provide the disclosures on its website through its annual report, the Additional Pillar 3 information and through this Pillar 3 disclosure document. Annex 1 of this document includes the Pillar 3 disclosures in accordance with Part Eight of the CRR.

The Hague, June 2020

ANNEX 1

PILLAR 3 DISCLOSURES IN ACCORDANCE WITH PART EIGHT TITLES II AND III ARTICLES 435-455 CRR

Article 435.1: Risk management objectives and policies

Risk management has a central role in the organisation. Risk awareness is an important element of the bank's business culture and is embedded in its long-term strategy aimed at solidity, efficiency and sustainability. NWB Bank lends to governments and government-backed institutions, which are guaranteed by (local) authorities. It also provides loans to drinking water companies and renewable energy projects and finances PPP projects with the government as the contracting authority. In addition, the bank provides loans to other government sponsored and/or owned client groups in the public sector, including university medical centres and regional network operators.

Article 435.1	Item	Comment	Reference
(a)	Strategies and processes.	Risk management has a central role in the organisation (also refer to note 34 in the financial statements). Risk awareness and low risk appetite are important elements of the bank's business culture and are embedded in its long-term strategy aimed at solidity, efficiency and sustainability. The organisation is designed to identify and analyse risks at an early stage. The bank aims to set sensible limits and monitor those limits. Risk management is characterised by effectively responding to changing circumstances and by providing proper parameters for the bank's operations. This helps NWB Bank maintain its strong financial position and very low cost structure. The basis for NWB Bank's risk management is a classification of all relevant risks into specific categories. This risk taxonomy, as it is called, is determined every year and does not take into account any mitigating measures in its assessment of the relevance of the risks.	Annual Report ¹⁾ pages 75, 148
(b)	Structure and organisation.	The bank's strategy places strict requirements on risk management as well as on the organisation and enforcement of adequate internal controls. NWB Bank has adopted an organisation-wide approach to risk management and its controls. As an important element of its supervisory role, the Supervisory Board, and in particular the Supervisory Board's Risk Committee, evaluates management of the risks associated with banking operations. The Executive Committee sets the risk appetite and risk management parameters. Within these parameters, the Asset & Liability Committee ("ALCO"), the Credit Committee and the Non-Financial Risk Committee ("NFRC") take decisions on the bank's risks.	Annual Report page 76 + website About NWB Bank (Executive Committee Charter)
(c)	Scope and nature of risk reporting and measurement systems.	The basis for NWB Bank's risk management is a classification of all relevant risks into specific categories. This so called taxonomy distinguishes between financial and non-financial risks, and both categories are further broken down into other subtypes. Several risk measures are used and outcomes are analysed and used for reporting via management information.	Annual Report pages 75, 148-167

1) References to the Annual Report are references to NWB Bank's Annual Report 2019, published on https://nwbbank.com/download_file/680/269

Article 435.1	Item	Comment	Reference
(d)	Policies for hedging and mitigating risk.	The bank enters into derivative transactions with financial counterparties to hedge against interest rate, currency and market risks. Risk management is characterised by effectively responding to changing circumstances and by providing proper parameters for the bank's operations.	Annual Report pages 75, 149
(e)	Declaration approved by the management body on the adequacy of risk management arrangements.	The Managing Board is of the opinion that, in the year under review, the internal risk controls and systems were effective and that the Report of the Managing Board provides sufficient insight into their functioning. There are no material risks and uncertainties of relevance to the going-concern expectation of the company for a period of 12 months following the drawing up of the report. The internal risk controls and systems provide reasonable assurance that NWB Bank's financial reports are free from material misstatements. The risk governance section of the Report of the Managing Board and the risk management section of the financial statements contain a substantiation of the in-control statement. Also, the Managing Board states that, to the best of its knowledge, the financial statements give a true and fair view of the bank's assets, liabilities, financial position and profit. Based on the current state of affairs, the financial statements were justifiably drawn up on a going-concern basis. The Managing Board also states that, to the best of its knowledge, the Report of the Managing Board includes a fair view of the bank's position at the balance sheet date and of its development and performance during the financial year, as well as a description of the principal risks the bank faces.	Annual Report pages 106-107
(f)	Concise risk statement approved by the management body on overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	NWB Bank is exposed to certain risks in achieving its strategic objectives. The bank's risk appetite, which is expressed in the degree and areas of risk that it is prepared to accept, is set out in the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS). The bank's Supervisory Board agrees with and has approved both documents. In 2019, the bank made further improvements to its RAF, revised its RAS, and further clarified the translation of the RAS into risk parameters and internal limits.	Annual Report page 75

Article 435.2: Governance arrangements

As a bank of and for the public sector, NWB Bank has a special responsibility to society. In terms of corporate governance, this means the bank should foster its strong financial position while practising transparency in its governance and taking account of the interests of all stakeholders. Taking account of the bank's specific character, NWB Bank's corporate governance practices are not only compliant with the Dutch Corporate Governance Code, but also with the Dutch Banking Code, the Code of Conduct set out in the 'Future-Oriented Banking' package issued by the Dutch Banking Association (NVB), the EBA (European Banking Association) Guidelines on internal governance, the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, and the BIS Guidelines Corporate governance principles for banks.

Article 435.2	Item	Comment	Reference
(a)	Number of directorships held by members of the Managing Board.	For every new or prospective member of the Managing or Supervisory Board, the bank assesses his or her directorships in order to establish compliance with Article 91(3) CRD IV. The bank performs a similar assessment for any additional directorship of a member of the Managing Board or Supervisory Board.	Annual Report pages 13-19 + website About NWB Bank - Organisation
(b)	Recruitment policy for the selection of Members of the Managing Board and their actual knowledge, skills and expertise.	The Managing Board's composition must be such that the Managing Board is able to properly carry out its duties. Complementing each other, collective management and diversity are preconditions for the Managing Board's proper performance of its duties. Each member of the Managing Board must have thorough knowledge of the financial sector in general and the banking industry in particular. Each member must have thorough knowledge of the bank's social functions and of the interests of all of the bank's stakeholders. Furthermore, each member of the Managing Board must have in-depth knowledge so as to be able to assess and determine the outlines of the bank's policies, and to reach a balanced and independent opinion on any risks run pursuant to those policies. The aim is to have variety in the composition of the Managing Board, such as on a balanced distribution of seats in terms of gender (at least 30% women and at least 30% men).	Website Executive Committee Charter + Supervisory Board Charter
(c)	Policy on diversity.	NWB Bank seeks to recruit professionals who add diversity to its workforce. For NWB Bank, diversity goes beyond gender. The bank wants its workforce to reflect society as much as possible. For example, attention is paid to drawing up recruitment profiles. For each vacancy, the bank looks at which candidate will complement a team in terms of knowledge, skills, background and personality. In 2019, a diversity policy for the composition of the Supervisory Board and the Executive Committee was approved.	Annual Report pages 68-69, 74, 86 + Supervisory Board Charter

Article 435.2	Item	Comment	Reference
(d)	Set up of a separate risk committee and the number of times the risk committee has met.	<p>The bank's Supervisory Board has a separate Risk Committee.</p> <p>The bank has an ALCO that monitors and decides on amongst others the bank's asset & liability management, liquidity and capital management, interest rate, currency and counterparty risk.</p> <p>Decision-making with respect to credit risks in lending takes place in the Credit Committee based on a credit proposal from the public finance department and an independent risk assessment from the risk management department.</p> <p>The Non-Financial Risk Committee ("NFRC") monitors and discusses the development of operational risks so as to determine whether the risks are and will remain in line with the risk appetite adopted.</p>	Annual Report pages 76, 83, 86, 149, 154, 162 + Risk Committee Charter
(e)	Description of the information flow on risk to the management body.	<p>NWB Bank has a reliable, fully integrated management information system (MIS). The data quality of the MIS is monitored, validated and reconciled with the financial accounting records on a daily basis. To minimise the operational risks, all the internal and external reports are fully automated. Adjustments in the system landscape and information systems are approved by the Change Advisory Board and implemented through a controlled change management process. This management information is also important for the decision making process within the ALCO. Also, as a tool from the operational risk framework serves the non-financial risk report to the NFRC and the management team.</p>	Annual Report pages 154, 162-163

Article 436: Scope of application

The Pillar 3 disclosure requirements apply to Nederlandse Waterschapsbank N.V., a public limited company organised and established under the law of the Netherlands. The bank has no subsidiaries; hence, it does prepare individual financial statements.

Article 436	Item	Comment	Reference
(a)	The name of the institution to which the requirements of the CRR apply.	Nederlandse Waterschapsbank N.V.	Annual Report page 117 + website
(b)	An outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, (...).	The bank has no participating interests.	Annual Report page 117
(c)	Any current of foreseen material or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.	Not applicable.	
(d)	The aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of subsidiaries .	Not applicable.	
(e)	If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	Not applicable.	

Article 437: Own funds

Reference is made to the Pillar 1 disclosures in the Annual Report and the Additional Pillar 3 information.

Article 437	Item	Comment	Reference
(a)	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds and the balance sheet in the audited financial statements.	Reference is made to the table on the calculation of the Tier 1 capital ratio.	Annual Report page 167 + Additional Pillar 3 information
(b)	A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued.	Reference is made to Annexes II and VI of the Additional Pillar 3 information.	Additional Pillar 3 information
(c)	The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.	Reference is made to Annexes II and VI of the Additional Pillar 3 information.	Additional Pillar 3 information
(d)	Separate disclosure of the nature and amounts of: <ol style="list-style-type: none"> i. each prudential filter applied pursuant to Articles 32 to 35; ii. each deduction made pursuant to Articles 36, 56 and 66; iii. items not deducted in accordance with Articles 47, 48, 56, 66 and 79. 	Reference is made to 'Annex VI: Common Equity Tier 1 (CET1) capital: regulatory adjustments' of the Additional Pillar 3 information.	Additional Pillar 3 information
(e)	A description of all restrictions applied to the calculation of own funds in accordance with the CRR and the instruments, prudential filters and deductions to which those restrictions apply.	Not applicable as the bank does not apply any restriction.	
(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR, a comprehensive explanation of the basis on which those capital ratios are calculated.	Not applicable as the bank does not deviate from CRR.	

Article 438: Capital requirements

In 2018, NWB Bank complied with all the external and internal capital requirements.

Article 438	Item	Comment	Reference
(a)	Approach to assessing the adequacy of the Bank's internal capital to support current and future activities.	The internal assessment of capital adequacy, the Internal Capital Adequacy Assessment Process (ICAAP), is a key activity within the bank's capital management. The bank's risk appetite, which is expressed in the degree and areas of risk that it is prepared to accept, is set out in the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS).	Annual Report pages 75-76
(b)	Upon demand of the relevant competent authority, the result of the Bank's Internal Capital Adequacy Assessment Process.	As part of the annual Supervisory Review and Evaluation Process (SREP), the ECB reassessed the capital requirement for NWB Bank also in 2019. The requirement for the bank-specific Pillar 2 capital requirement remained unchanged at 2.25%. This requirement will apply from 1 January 2020. The total SREP capital requirement for NWB Bank amounts to 10.25%. This is the sum of the total Pillar 1 capital requirement of 8% and the Pillar 2 capital requirement of 2.25%.	Annual Report pages 30, 66, 167
(c)	Risk weighted exposure amounts in accordance with the standardised approach.	Reference is made to the total credit risk (including irrevocable commitments) expressed in risk-weighted assets based on the standardised approach as set out in the CRR. The bank also uses the standardised approach when calculating qualifying capital for operational risk.	Annual Report pages 151, 166
(d)	Risk weighted exposure amounts in accordance with an internal rating based ("IRB") approach.	Not applicable as the bank does not use an IRB approach.	
(e)	Own funds requirements.	Reference is made to the Annual Report and the Additional Pillar 3 information.	Annual Report pages 166-167 + Additional Pillar 3 information
(f)	Own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	Reference is made to the Annual Report and the Additional Pillar 3 information.	Annual Report pages 166-167 + Additional Pillar 3 information

Article 439: Exposure to counterparty credit risk

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

Article 439	Item	Comment	Reference
(a)	A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposure.	<p>All of NWB Bank's loans are included in the bank's credit assessment system according to its credit risk management policy. In 2019, this policy was further elaborated, as a result of which all loans are individually assessed. If a credit limit is set for a borrower, it is adjusted annually, at a minimum, in line with the latest developments. Decision-making on lending subject to solvency requirements takes place in the Credit Committee based on a credit proposal from the public finance department and an independent risk assessment from the risk management department. Given the public-sector nature of the majority of the bank's clients who, moreover, are exempt from solvency requirements, the credit risk of the loan portfolio is limited. This is also reflected in the robust capital ratios.</p> <p>To limit the counterparty credit risks associated with derivatives used to manage interest rate and currency risks as far as possible, in principle, NWB Bank only enters into transactions with counterparties with a single-A rating at a minimum. This applies when these derivatives have not been cleared centrally. Furthermore, limits are set to minimise the total exposure from derivatives.</p>	Annual Report page 149
(b)	A discussion of policies for securing collateral and establishing credit reserves.	The fair values of non-centrally cleared derivatives are hedged by collateral agreements (Credit Support Annexes, or CSAs) using mostly zero thresholds and by exchanging collateral on a daily basis, in cash.	Annual Report page 149
(c)	A discussion of policies with respect to Wrong-Way risk exposures.	Wrong-way risk is not applicable due to the fact that the bank has not identified any wrong-way risk.	
(d)	A discussion of the impact of the amount of collateral the Bank would have to provide given a downgrade in its credit rating.	The impact would not be material as the CSAs mostly use zero thresholds (bank and counterparty).	Annual Report page 149
(e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure.	Reference is made to the credit risk paragraph in the Annual Report 2019, including tables showing the net fair values of the derivatives, i.e. including collateral received and provided.	Annual Report pages 148-150

Article 439	Item	Comment	Reference
(f)	Measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable.	NWB Bank uses the standardised method for general credit risk. In addition, there is the capital for counterparty risk for which the mark-to-market method is used.	Annual Report page 166
(g)	The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	Not applicable. The bank has no credit derivatives.	
(h)	The notional amounts of credit derivative transactions, segregated between use for the Bank's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group.	Not applicable.	
(i)	The estimate of (a) if the Bank has received the permission of the competent authorities to estimate (a).	Not applicable.	

Article 440: Capital buffers

Article 440	Item	Comment	Reference
(a)	The geographical distribution of the Bank's credit exposures relevant for the calculation of its countercyclical capital buffer.	The geographical distribution of the exposures broken down in significant areas by material exposure classes is detailed in the Annual Report 2019 on page 151.	Annual Report page 151
(b)	The amount of institution specific countercyclical capital buffer.	Not applicable.	

Article 441: Indicators of global systemic importance

Not applicable. NWB Bank is not identified as global systemically important institution.

Article 442: Credit risk adjustments

The bank's policy is geared towards an extremely high creditworthiness of the loan portfolio. Given the public-sector nature of the majority of the bank's clients who, moreover, are exempt from solvency requirements, the credit risk of the loan portfolio is limited. To limit the counterparty credit risks associated with the derivatives used to manage interest rate and currency risks as far as possible, in principle, NWB Bank only enters into transactions with counterparties with a single-A rating at a minimum. This applies when these derivatives have not been cleared centrally. Furthermore, limits are set to minimise the total exposure from derivatives. The fair values of these derivatives are hedged by CSAs using mostly zero thresholds and by exchanging collateral on a daily basis, in cash. Since 2016, the bank's interest rate derivatives have been cleared by a central counterparty, which has further reduced counterparty risk.

Article 442	Item	Comment	Reference
(a)	The definitions for accounting purposes of "past due" and "impaired".	The definitions for accounting purposes of "past due" and "impaired" are: Past due is a loan payment that has not been made at its due date. A borrower who is past due may be subject to penalty. Impaired means an exposure that has actually defaulted. From 1 January 2020 onwards the bank uses the IFRS expected credit loss methodology. This new method replaces the incurred loss model with an expected credit loss approach.	Additional Pillar 3 information, Annual Report pages 122-123
(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments.	NWB Bank has divided credit risk into the following subtypes: credit default risk, credit migration risk, counterparty credit risk, CVA risk, settlement risk, credit concentration risk and country risk. As to credit default risk, the bank's policy is geared towards a high creditworthiness of the loan portfolio. In 2019, the bank further developed credit risk management by means of client scorecards. Given the risk profile of NWB Bank's counterparties, a provision for uncollectible receivables was not necessary at year-end 2019 (2018: nil). At the end of 2019, an exposure amounting to €9 million was classified as a performing forbore exposure (2018: €8 million). As said, from 1 January 2020 onwards the bank uses the IFRS expected loss impairment methodology. This new impairment method replaces the incurred loss model with an expected credit loss approach. To limit the credit risks associated with derivatives as far as possible, in principle, NWB Bank only enters into transactions (unless they are eligible for central clearing) with counterparties with a single-A rating at a minimum, collateral is exchanged and limits are set to minimise the total exposure from derivatives.	Annual Report pages 31, 122, 132, 148-149
(c)	The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes.	Reference is made to the information in the credit risk paragraph in the financial statements 2019.	Annual Report pages 148-153

Article 442	Item	Comment	Reference
(d)	The geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate.	The geographic distribution of the exposures broken down in significant areas by material exposure classes is detailed in the annual report on page 151.	Annual Report page 151
(e)	The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate.	Reference is made to the information in the credit risk paragraph in the financial statements 2019.	Annual Report pages 148-153
(f)	The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate.	In the financial statements 2019, the balance sheet categories according to the remaining contractual term, including all future undiscounted interest cash flows, as well as centrally cleared derivatives and before proposed profit appropriation, are presented.	Annual Report page 159
(g)	By significant industry or counterparty type, the amount of: <ul style="list-style-type: none"> i. impaired exposures and past due exposures, provided separately; ii. specific and general credit risk adjustments; iii. charges for specific and general credit risk adjustments during the reporting period. 	Not applicable. As at year-end 2019, the bank had no impairments.	
(h)	The amount of the impaired exposures and past due exposures.	Not applicable.	
(i)	The reconciliation of changes in the specific and general credit risk adjustments for impaired exposures.	Not applicable.	
(j)	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	Not applicable.	

Article 443: Unencumbered assets

Reference is made to the Additional Pillar 3 information.

Article 444: Use of ECAIs

NWB Bank uses the standardised method for general credit risk. This method uses external ratings linked to certain risk weightings.

Article 444	Item	Comment	Reference
(a)	The names of the nominated ECAIs and ECAs and the reasons for any changes.	NWB Bank uses the credit ratings of Moody's, S&P and/or Fitch. Credit risk to securitisations is also based on the Standardised Approach to Securitisations (set out in Article 251 of the CRR), in which the ratings issued by S&P, Moody's or Fitch are used.	Annual Report pages 151, 153
(b)	The exposure classes for which each ECAI or ECA is used.	The Bank uses ECAIs for banking counterparties and Residential Mortgage Backed Securities ("RMBS" with government-backed National Mortgage Guarantee (NHG)) notes.	Annual Report page 151
(c)	A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	NWB Bank uses the standardised method for general credit risk. In addition, there is the capital for counterparty risk for which the mark-to-market method is used. The capital requirement according to the Credit Valuation Adjustment (CVA) is additional to the capital requirement for counterparty default risk. This capital requirement is calculated using a standard formula based on exposure, rating and average term of derivatives positions entered into with counterparties, among other things.	Annual Report page 166
(d)	The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA.	The Bank complies with the standard association published by EBA.	
(e)	The exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.	Reference is made to the information in the financial statements 2019.	Annual Report pages 151-152

Article 445: Exposure to market risk

NWB Bank does not keep a trading portfolio. NWB Bank defines market risk as the risk of losses in on- or off-balance positions caused by negative changes in market rates. Within market risk, one subtype is recognised: FX risk. The bank's policy is to eliminate all currency risks on loans granted and borrowings. Currency risks arise primarily in respect of funds borrowed by the bank. NWB Bank borrows significant amounts in foreign currency. The resulting currency risks are fully hedged immediately by entering into currency swaps.

Article 445	Item	Comment	Reference
	The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately.	NWB Bank does not have a trading portfolio and has no commodity positions. Due to its stringent policy on currency risk, on balance, there are no outstanding currency positions. Therefore, the capital that is to be reserved to cover market risk is nil.	Annual Report page 166

Article 446: Operational risk

Article 446	Item	Comment	Reference
	The approaches for the assessment of own funds requirements for operational risk that the Bank qualifies for.	When calculating qualifying capital for operational risk, NWB Bank uses the standardised approach. Under this approach, 15% of the relevant indicator is taken as a benchmark for the operational risk. The relevant indicator is the three-year average of the total of the annual net interest income and the annual net non-interest income at the end of the financial year.	Annual Report pages 161-162, 166

Article 447: Exposures in equities not included in the trading book

Not applicable. NWB Bank has no exposures in equities.

Article 448: Exposure to interest rate risk on positions not included in the trading book

The bank's exposure to fluctuations in interest rates arises from differences in interest rate and terms between lending and borrowing. The bank pursues a prudent policy towards these risks.

Article 448	Item	Comment	Reference
(a)	The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk.	The bank's exposure to fluctuations in interest rates arises from differences in the interest rate and terms between lending and borrowing. The policy is to manage the interest rate risk by taking out interest rate derivatives for both the asset and the liability side of the balance sheet. To manage risks, a gap analysis according to the interest rate period, risk measures such as (spread) DV01, Earnings at Risk and scenario analyses are used.	Annual Report pages 153 -154
(b)	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	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 effect of this sudden change in the interest rate as at 31 December 2019 is shown in a table in the financial statements 2019. It shows the consequential changes in fair value that have been subsequently broken down into the effect on the result of the current financial year and the effect on future annual results.	Annual Report page 156

Article 449: Exposure to securitisation positions

Article 449	Item	Comment	Reference
(a)	A description of the institution's objectives in relation to securitisation activity.	<p>The bank has a portfolio of NHG RMBS notes (Residential Mortgage-Backed Securities, based on mortgages under the National Mortgage Guarantee [NHG] scheme), through which it contributes to the financing and affordability of government-backed residential mortgages. The supply of fully NHG-guaranteed RMBS transactions is limited, and the bank did not purchase any new NHG RMBS notes in 2019. NWB Bank only actively uses securitisation in its role as an investor, when it monitors the risks during the period to maturity and firmly intends to hold the RMBS (NHG) notes until the expected expiry date.</p> <p>In 2019, the bank prepared itself for investments in Green pass-through NHG RMBS in line with the third pillar of the strategy 'Finance partner for making the Netherlands more sustainable'. By doing so, the bank aims to contribute to lower mortgage costs for owners of sustainable homes with a national mortgage guarantee.</p>	Annual Report pages 29, 35, 59, 84, 153
(b)	The nature of other risks including liquidity risk inherent in securitised assets.	The bank monitors the associated credit, market and liquidity risks during the period to maturity. Liquidity risk of the NHG-RMBS notes is slightly higher than for other securities.	Annual Report page 153
(c)	The type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with resecuritisation activity.	The bank monitors the associated credit, market and liquidity risks during the period to maturity.	Annual Report page 153
(d)	The different roles played by the institution in the securitisation process.	The bank only uses securitisations in its role as an investor.	Annual Report page 153
(e)	An indication of the extent of the institution's involvement in each of the roles referred to in point (d).	In 2019, NWB Bank held notes of RMBS programmes from two Dutch originators in its portfolio (2018: two). The total NHG RMBS portfolio amounted to €0.4 billion at the end of 2019 (2018: €0.8 billion).	Annual Report pages 151, 153
(f)	A description of the processes in place to monitor changes in the credit and market risk of securitisation exposures including, how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for resecuritisation exposures.	The bank monitors the risks during the period to maturity and firmly intends to hold the RMBS (NHG) notes until the expected expiry date. Credit risk is expressed in risk-weighted assets based on the Standard Approach to Securitisations as set out in Article 251 of the CRR, in which the ratings issued by S&P, Moody's or Fitch are used to indicate credit risk.	Annual Report page 153
(g)	A description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure.	The investments done by the bank in NHG RMBS notes have either a floating coupon and are not hedged for interest rate risk or a fixed coupon and hedged for interest rate risk. Furthermore, the notes are held until maturity. The NHG RMBS notes have a limited risk profile due to the NHG guarantee on the underlying mortgages. Next to this, the bank has only senior tranches of NHG RMBS securitisations in portfolio. The RMBS portfolio with NHG notes comprise senior A notes under the 20% weighting category.	Annual Report pages 59, 152-153

Article 449	Item	Comment	Reference
(h)	The approaches to calculating risk-weighted exposure amounts that the institution follows for its securitisation activities including the types of securitisation exposures to which each approach applies.	Credit risk is expressed in risk-weighted assets based on the Standardised Approach to Securitisations as set out in Article 251 of the CRR, in which the ratings issued by S&P, Moody's or Fitch are used to indicate credit risk.	Annual Report page 153
(i)	The types of SSPE that the institution, as sponsor, uses to securitise third-party exposures.	Not applicable as the bank only acts as investor.	
(j)	A summary of the institution's accounting policies for securitisation activities.	The bank only actively uses securitisation in its role as an investor and firmly intends to hold the NHG RMBS notes until maturity. The investments done by the bank in NHG RMBS securitisations (interest-bearing securities held to maturity) are stated at amortised cost.	Annual Report pages 118-119, 153
(k)	The names of the ECALs used for securitisations and the types of exposure for which each agency is used.	The ratings issued by S&P, Moody's or Fitch are used to indicate credit risk.	Annual Report page 153
(l)	Where applicable, a description of the Internal Assessment Approach as set out in Part Three, Title II, Chapter 5, Section 3.	Not applicable as the bank does not use the Internal Assessment Approach.	
(m)	An explanation of significant changes to any of the quantitative disclosures in points (n) to (q) since the last reporting period.	In the Annual Report 2019, the bank gives a further description of the NHG RMBS portfolio. No significant changes since the last reporting period.	Annual Report page 153
(n)	<p>Separately for the trading and the non-trading book, the following information broken down by exposure type:</p> <ol style="list-style-type: none"> the total amount of outstanding exposures securitised by the institution, separately for traditional and synthetic securitisations and securitisations for which the institution acts only as sponsor; the aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures; the aggregate amount of assets awaiting securitisation; for securitised facilities subject to the early amortisation treatment, the aggregate drawn exposures attributed to the originator's and investors' interests respectively, the aggregate capital requirements incurred by the institution against the originator's interest and the aggregate capital requirements incurred by the institution against the investor's shares of drawn balances and undrawn lines; the amount of securitisation positions that are deducted from own funds or risk-weighted at 1,250%; a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale. 	The supply of fully NHG-guaranteed transactions is limited and the bank did not purchase any new NHG RMBS notes in 2019. The total NHG RMBS portfolio amounted to €0.4 billion at the end of 2019 (2018: €0.8 billion).	Annual Report pages 59, 151, 153

Article 449	Item	Comment	Reference
(o)	<p>Separately for the trading and the non-trading book, the following information:</p> <p>i. the aggregate amount of securitisation positions retained or purchased and the associated capital requirements, broken down between securitisation and resecuritisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used;</p> <p>ii. the aggregate amount of re-securitisation exposures retained or purchased broken down according to the exposure before and after hedging/ insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name.</p>	<p>The RMBS notes with a government-backed National Mortgage Guarantee (NHG) comprise senior A notes under the 20% risk weighting category. Data as at 31 December 2019:</p> <p>Rating: AAA Nominal amount (€ million): 424 Class: A</p> <p>The total nominal amount at the end of 2019 was €424 million. The risk-weighted assets at the same date amounted to €85 million.</p>	Annual Report pages 151-153
(p)	For the non-trading book and regarding exposures securitised by the institution, the amount of impaired/past due assets securitised and the losses recognised by the institution during the current period, both broken down by exposure type.	Not applicable.	
(q)	For the trading book, the total outstanding exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type.	Not applicable.	
(r)	Where applicable, whether the institution has provided support within the terms of Article 248(1) and the impact on own funds.	Not applicable.	

Article 450: Remuneration policy

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

Article 450	Item	Comment	Reference
(a)	Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders.	The General Meeting of Shareholders adopts the remuneration policy for the Managing Board. The remuneration policy for the employees is set by the Managing Board and approved by the Supervisory Board. The Remuneration and Appointment Committee biannually reviews the bank's remuneration policy. In 2019, the Remuneration and Appointment Committee met three times.	Annual Report pages 86, 92, 95 + Remuneration policy + Remuneration and Appointment Committee Charter
(b)	Information on link between pay and performance.	With effect as of 1 January 2019, the Managing Board's variable remuneration has been abolished. This is in line with the employees' variable remuneration, which was abolished as per 1 January 2018.	Annual Report pages 92, 95 + Remuneration policy
(c)	The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria.	<p>Members of the Managing Board</p> <p>As mentioned above, the Annual General Meeting on 16 April 2020 abolished the variable remuneration of members of the Managing Board with retroactive effect from 1 January 2019. The variable remuneration of the members of the Managing Board under the policy until 1 January 2019 amounted to a maximum of 15% of the fixed remuneration. This variable remuneration had a deferred portion of 33%. The deferred portion is paid out in the fourth year after the year to which it relates, provided the previously agreed long-term targets have also been achieved. The last assessment of the long-term objectives from 2018 and whether the deferred portion will be made payable (in full or in part) will therefore take place in 2022.</p> <p>Employees</p> <p>The employee remuneration policy applies in full to all employees, irrespective of their positions or job scales. NWB Bank applies the Collective Labour Agreement for the Dutch Banking Industry (CLA). The remuneration comprises 12 monthly salaries, 8% 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. By way of compensation for the abolition of the variable remuneration effective 1 January 2018, employees receive an allowance of 10.745% in addition to their salaries. This allowance is not pensionable.</p>	Annual Report pages 92-93, 95 + Remuneration policy Managing Board

Article 450	Item	Comment	Reference
(d)	The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU.	<p>Members of the Managing Board</p> <p>Effective 1 January 2019, the bank abolished the variable remuneration for the Managing Board (maximum 15% of the fixed remuneration) upon decision of the shareholders.</p> <p>Employees</p> <p>Effective 1 January 2018, the bank abolished the variable remuneration schemes for employees (profit-sharing and bonus payment plans).</p>	Annual Report pages 92, 95 + Remuneration policy
(e)	Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based.	<p>The variable remuneration for the Managing Board members was abolished as per 1 January 2019. However, a deferred portion will be applicable until 2022 for which the following long-term targets apply:</p> <ul style="list-style-type: none"> - Standard & Poor's and Moody's ratings for the bank must equal the sovereign rating for the State of the Netherlands, and - the position in the market must remain strong 	Annual Report page 95 + Remuneration policy
(f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits.	See under (c) above.	Annual Report pages 92, 95 + Remuneration policy
(g)	Aggregate quantitative information on remuneration, broken down by business area.	<p>The Remuneration Report 2019 provides an overview of the remuneration for members of the Managing Board. The number of FTEs (including the Managing Board) totalled 62.8 at the end of 2019. The bank has an unambiguous and uniform remuneration structure throughout the whole organization. Information on the remuneration of all employees is included in the Remuneration Report 2019 and the financial statements 2019. The bank also determines the pay ratio between the CEO and the other employees. Based on the Global Reporting Initiative (GRI) Standard disclosure 'G4-54', the pay ratio between the CEO and the median of NWB Bank's other employees is 3.8 for 2019 (2018: 3.9).</p>	Annual Report pages 94-96, 126-127 + Remuneration policy
(h)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution.	<p>The Remuneration Report 2019 provides an overview of the remuneration for members of the Managing Board. The number of FTEs (including the Managing Board) totalled 62.8 at the end of 2019. The bank has an unambiguous and uniform remuneration structure throughout the whole organization. Information on the remuneration of all employees is included in the Remuneration Report 2019 and the financial statements 2019.</p>	Annual Report pages 94-96, 126-127 + Remuneration policy
(i)	The number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands.	Not applicable. The total annual remuneration paid to either the members of the Managing Board or the employees of NWB Bank did not exceed €1 million.	Annual Report page 126

Article 450	Item	Comment	Reference
(j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	Not applicable. No such demand has been made, but an overview of the remuneration for members of the Managing Board can be found in the Remuneration Report.	Annual Report page 94

Article 451: Leverage

On 27 June 2019, the renewed European capital regulation CRR II entered into force. Part of this is an adjusted definition of the leverage ratio for promotional banks. In short, as a promotional bank, the bank may exclude lending to the public sector from the calculation of the leverage ratio. As a result, the leverage ratio (including profit for the current financial year) was 15.4% as at 31 December 2019, which is well above the future minimum requirement of 3%.

Article 451	Item	Comment	Reference
(a)	The leverage ratio and how the Bank applies Article 499(2) and (3).	Reference is made to the Additional Pillar 3 information.	Additional Pillar 3 information
(b)	Breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.	Reference is made to the Additional Pillar 3 information.	Additional Pillar 3 information
(c)	The amount of derecognised fiduciary items in accordance with Article 429(11).	Not applicable. The bank has no fiduciary items.	
(d)	Description of the processes used to manage the risk of excessive leverage.	The bank issued several tranches of AT1 in 2015 and 2016 in view of the future leverage ratio requirement of 3%. At that time, there was no prospect yet of an adjusted definition of the leverage ratio for promotional banks. Following the announcement of the proposal for proportional application of the leverage ratio requirement for public development credit institutions in 2016, the bank decided not to further issue AT1. Although the leverage ratio and the rest of CRR II have already entered into force, the bank will only have to comply with a minimum leverage ratio requirement of 3% in two years' time. The bank can already comfortably meet this requirement because of the amended regulation.	Annual Report pages 29, 66
(e)	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	Reference is made to the Additional Pillar 3 information.	Additional Pillar 3 information

Article 452: Use of the IRB Approach to credit risk

Not applicable. The bank does not use the IRB Approach.

Article 453: Use of credit mitigation techniques

NWB Bank's primary business is to provide loans to the public sector in the Netherlands. Given the public-sector nature of the majority of the bank's clients who, moreover, are exempt from solvency requirements, the credit risk of the loan portfolio is limited. Credit risks associated with the derivatives transactions entered into are largely mitigated by exchanging collateral. Since 2016, the bank's interest rate derivatives have been cleared by a central counterparty, which has further reduced counterparty risk.

Article 453	Item	Comment	Reference
(a)	Policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting.	<p>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.</p> <p>Regarding credit risks associated with the derivatives transactions entered into, the bank's policy is to conclude agreements with counterparties within the International Swaps and Derivatives (ISDA) framework. As a minimum, these agreements are related to ISDA schedules and CSAs which ensure that netting agreements apply. In 2017, CSAs concluded with the majority of counterparties were amended to bring them into line with the new market standard (Variation Margin CSA, or VM CSA). Since 2016, the bank's interest rate derivatives have been cleared by a central counterparty, which has further reduced counterparty risk.</p>	Annual Report pages 121, 149
(b)	Policies and processes for collateral valuation and management.	Derivatives are measured by applying generally accepted valuation models, based on the most appropriate valuation curves, which include the OIS curve. A credit valuation adjustment and a debt valuation adjustment are also included in the measurement. The fair values of these derivatives are hedged by collateral agreements (Credit Support Annexes, or CSAs) using mostly zero thresholds and by exchanging collateral on a daily basis, in cash.	Annual Report pages 145, 149
(c)	Description of the main types of collateral taken by the institution.	The bank mainly takes EUR cash collateral.	Annual Report page 149
(d)	Main types of guarantor and credit derivative counterparty and their creditworthiness.	The bulk of the bank's loan portfolio comprises loans to local authorities or institutions guaranteed by local and regional governments. The Social Housing Guarantee Fund (WSW) and the Healthcare Sector Guarantee Fund (WFZ) guarantee loans to housing associations and healthcare institutions respectively. The Dutch central government (and municipalities) ultimately support these funds. The bank has no credit derivatives.	Annual Report pages 12, 56, 58
(e)	Information about market or credit risk concentrations within the credit mitigation taken.	Owing to the bank's specific business model, there is a concentration risk related to the Dutch public sector.	Annual Report page 149

Article 453	Item	Comment	Reference
(f)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral.	Reference is made to the table in the financial statements 2019 showing the net fair values of the derivatives, i.e. including collateral received and posted.	Annual Report pages 149-150
(g)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	Reference is made to the table in the financial statements 2019 showing the credit risk expressed in risk-weighted assets based on the Standardised Approach, and the Additional Pillar 3 information.	Annual Report page 151 + Additional Pillar 3 information

Article 454: Use of the Advanced Measurement Approaches to operational risk

Not applicable.

Article 455: Use of Internal Market Risk Models

Not applicable. The bank does not use internal models.