

DE NEDERLANDSE WATERSCHAPSBANK N.V. (NWB BANK) SOCIAL BOND

SECOND OPINION BY SUSTAINALYTICS

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1. INTRODUCTION

De Nederlandse Waterschapsbank N.V. (NWB Bank) intends to issue social bonds and has developed a framework¹ to guide the issuance of such bonds. The social bonds will refinance loans that fund social housing projects in the Netherlands. NWB has engaged Sustainalytics to provide a second opinion on its social bond framework and the bond's social credentials.

As a part of this engagement, Sustainalytics held conversations with members of NWB's management team to understand the social impact of their planned use of proceeds under this social bond framework. Sustainalytics also reviewed relevant public and internal documents which elaborate on the eligibility criteria for the bond proceeds. This document contains Sustainalytics' Second Party Opinion (SPO) - an opinion on the framework, and should be read in conjunction with the NWB Bank Social Bond framework.

2. OVERVIEW OF ISSUER

NWB Bank is a leading financial services provider for the public sector. The bank arranges short-term and long-term loans for water authorities, municipalities, provinces, social housing, healthcare, educational institutions, public-private partnerships (PPP) and activities in the field of water supply and the environment. NWB Bank publishes annual integrated reports aligned with the Global Reporting Initiative Standards. NWB Bank has set up a CSR Committee which comprises a Managing Director. The Committee reports to the Managing Board of the bank.

In the Netherlands there has been a 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 in the country.

NWB is a large lender to Dutch Housing Associations' social housing assets. NWB states in its social bond framework² that it has 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 refinance lending for social housing.

¹ The framework will be published on the NWB Bank Investor Relations home page

3 SUSTAINALYTICS' OPINION

Impact of Use of Proceeds: Importance of Social Housing in the Netherlands

Addressing a critical gap in affordable housing in the Netherlands

Under Dutch regulations, Dutch municipalities work with housing associations in the country to place applicants in social housing, prioritizing the most vulnerable groups. Social housing applicants are put on a waiting list. In 2015, the average waiting time for social housing in the Netherlands was eight years.³ In some cities waiting times significantly exceed the national average. For example, in 2015 in Purmerend applicants had to wait on average 21 years.⁴

At the same time, data from the Dutch Statistics Bureau (CBS) shows that the number of new construction permits issued to housing associations dropped to a historic low of around 6,000 homes in 2014.⁵ Approximately 125,000 new residential housing units will be put in use by 2020, including 85,000 units for the social housing sector. However, an expected increase in the number of households in the Netherlands means that a growing shortage of affordable rental housing will remain unresolved in the near term, particularly in the urban areas of the country.⁶

Those most affected by the housing shortage are the most economically vulnerable parts of the population. NWB's social housing bond could thus play a key role in incentivizing the sufficient supply of long-term affordable social housing, particularly for those populations at the lower end of the income. Currently, the income distribution gap in the Netherlands remains relatively large with the top 20% of the Dutch population earning about four times as much as the bottom 20% (OECD data).⁷

The bottleneck in social housing availability is further exacerbated by a migrant influx which, Europe is currently experiencing. In 2015, the Netherlands received 58,880 asylum applications, the biggest part from refugees escaping war in Syria.⁸ By contrast, between 2003 and 2012, the number of refugee applications did not exceed 17,000. NWB's social housing bond will help address the growing need for affordable housing for migrants, including those with a refugee status.

Given this context, Sustainalytics is of the opinion that NWB's social bond addresses a growing need for affordable housing for vulnerable populations nation-wide. The NWB Social Bond can help alleviate a backlog of social housing applications and excessive waiting times, further worsened by an increase in refugee arrivals and a large income distribution gap in the Netherlands.

³ RTL Nieuws, accessed April 18, 2017 from: <https://www.rtlnieuws.nl/nieuws/binnenland/gemiddeld-acht-jaar-wachten-op-huurwoning>

⁴ RTL Nieuws, accessed April 18, 2017 from: <https://www.rtlnieuws.nl/nieuws/binnenland/gemiddeld-acht-jaar-wachten-op-huurwoning>

⁵ Capital Value Research: Demand for Affordable Rented Housing in the Netherlands Remains High, accessed April 18, 2017 from: http://www.capitalvalue.nl/en/news/demand-for-affordable-rented-housing-in-the-netherlands-remains-high?news_id=245

⁶ RTL Nieuws, accessed April 18, 2017 from: <https://www.rtlnieuws.nl/nieuws/binnenland/gemiddeld-acht-jaar-wachten-op-huurwoning>

⁷ OECD Better Life Index, accessed April 17, 2017 from: <http://www.oecdbetterlifeindex.org/countries/netherlands/>

⁸ VluchtelingenWerk Nederland: Eerste Azielaanvragen Statistiek, accessed April 18, 2017 from: <https://www.vluchtelingenwerk.nl/feiten-cijfers/cijfers/bescherming-nederland>

Advancing the U.N. Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 through a multi-stakeholder partnership, and form an agenda for achieving sustainable development by the year 2030. These goals are widely considered to be the next step to the Millennium Development Goals (MDG), which were time-bound to 2015. Unlike the MDG's, the SDGs emphasize the elimination of inequality and disparity in opportunity globally, in both developed and developing countries. In particular, SDG 11 'Sustainable Cities and Communities' and SDG 1 'End poverty in all its forms everywhere' have targets associated with providing access to adequate, safe, and affordable housing for all, and ensuring equal rights to economic resources and basic services. Through allocating bond proceeds to lending to social housing associations in the Netherlands, NWB Bank is directly contributing to the abovementioned targets, and to the advancement of the SDGs.

Sustainalytics' Opinion on NWB's Social Bond Framework

Sustainalytics assessed the NWB Bank framework, and determined its strengths and limitations. Overall, Sustainalytics is of the opinion that the NWB Bank framework has clear social impact as it provides affordable housing to vulnerable populations, and addresses a critical gap in affordable housing in the Netherlands.

The strength of the NWB framework derives from the following factors:

- As per the NWB Social Bond framework, housing associations that qualify for loans from the NWB Social Bond proceeds must let their social housing to households with a maximum income of EUR 35,739 per annum (as of 2016). This income threshold, which defines which households are low-income and eligible for affordable housing, is defined by the Dutch Government.⁹

Sustainalytics is of the opinion that basing the definition of low-income on a well recognized external standard ensures that the social bond is credible with respect to targeting vulnerable populations.

- The NWB Social Bond framework has also defined as an eligibility criterion that housing associations eligible for loans must cap their rental prices at EUR 710.68 per month. In comparison, the average rent in the private market in Amsterdam in 2016 was above EUR 1,200 per month. Given this context, Sustainalytics is of the opinion that this threshold for rental prices ensures that rental social housing funded through bond proceeds is rented at below average prices, and can be affordable for targeted populations.
- The eligibility criteria of the NWB Social Bond framework also specify that only loans guaranteed by the Social House-building Guarantee Fund (WSW) are eligible for proceeds from the NWB Social Bond. Based on conversations with NWB Bank, Sustainalytics understands that in order to qualify for a WSW guarantee certificate, housing associations must prove that they are letting 80% of their social housing to low-income populations as defined by the Dutch Social Housing Act.

⁹ Rijksoverheid: Voorwaarden voor sociale-huurwoning van een woningcorporatie, accessed April 18, 2017 from <https://www.rijksoverheid.nl/onderwerpen/huurwoning/vraag-en-antwoord/sociale-huurwoning-voorwaarden>

Sustainalytics is of the opinion that the WSW guarantee certificate acts as an important mechanism to ensure that the expected impact of the proceeds (i.e. the availability of affordable housing to target groups) will be realized.

- The NWB Social Bond framework states that it will qualify no more than 80% of their lending to the Housing Associations social housing stock as eligible assets for the Social Bond, despite the fact that 100% of NWB's lending is to Dutch social housing associations. NWB has stated that the reason for this is that some tenants might improve their living standards but continue living in the social housing funded by NWB. Given that there are limited mechanisms to monitor income levels of populations after they have qualified for and are living in social housing, Sustainalytics is of the opinion that qualifying 80% of social housing stock as eligible is an important mechanism to ensure that proceeds are truly directed to the targeted group.

The NWB Bank framework also has certain limitations. For example, in addition to the 80% qualification of loans described above, NWB eligibility criteria also define a threshold for percentage of housing stock let to low-income populations by recipients of eligible loans. Housing associations that are recipients of loans from NWB Social Bond Proceeds do not let 100% of their social housing stock to low-income populations (rather they must let 80% of their social housing stock to low-income populations).

As per the Dutch Social Housing Act, housing associations generally provide housing to both middle- and low-income groups. As defined in the Dutch Social Housing Act, housing associations in the Netherlands must let:

- 80% of social housing to low-income populations (households below the 35,739 per annum threshold, as defined in the framework)
- 10% of social housing to middle-income populations (defined as households in the EUR 38,900-40,900 per annum bracket)
- 10% of social housing to special needs populations, regardless of income bracket.

Given this constraint as set out by Dutch law, Sustainalytics is of the opinion that letting 80% of housing stock to low-income populations ensures that proceeds are allocated to renting social housing only to the most vulnerable populations, i.e. low-income populations and those in the 'Special Needs Program.'

Another limitation is that the NWB Bank framework does not give preference to lending to housing associations renting apartments in specific low-income or disadvantaged neighbourhoods. NWB Bank has disclosed to Sustainalytics that it is difficult to delineate which neighbourhoods are low-income or disadvantaged.

Sustainalytics also notes that, in the Netherlands' social housing system, municipalities decide how to prioritise social housing requests, based on which party is most vulnerable in that specific neighbourhood. The Dutch system is based on a point system where potential tenants are qualified according to their

need.¹⁰ For example, refugees are typically considered to be among the most vulnerable populations in neighbourhoods where there is a high influx of refugees.¹¹

Given this constraint, Sustainalytics is of the opinion that the NWB Bank framework allows for a broader reach of vulnerable populations at a national level, and aligns well with the Dutch Government's social mix strategy.¹²

Alignment with the ICMA Social Bond Guidance and Green Bond Principles 2016

Sustainalytics is of the opinion that NWB's social bond is well aligned with the ICMA's Social Bond Guidance, 2016, due to (a) the nature of the social projects described in the eligibility criteria, and (b) the targeted nature of the populations served. Given the clear need for affordable housing in the Netherlands, the targeted nature of NWB's eligibility criteria ensures the inclusion of disadvantaged and marginalized groups. In addition, Sustainalytics is of the opinion that NWB's social bond follows the guidance provided by the Green Bond Principles 2016 with respect to transparency around the project selection process, management of proceeds, and reporting. See Appendix 1 for details. Overall, Sustainalytics considers that proceeds from NWB's social bond can be expected to provide a high level of social impact to underserved communities by increasing the availability of affordable housing.

¹⁰ Huurprijs en puntentelling, accessed 18 April 2017 from: <https://www.rijksoverheid.nl/onderwerpen/huurprijs-en-puntentelling>

¹¹ Rijksoverheid: Hebben asielzoekers met een verblijfsvergunning voorrang op een sociale huurwoning?, accessed April 18, 2017 from: <https://www.rijksoverheid.nl/onderwerpen/asielbeleid/vraag-en-antwoord/hebben-vergunninghouders-voorrang-bij-het-toewijzen-van-een-sociale-huurwoning>

¹² Social mix policies in large housing estates: a comparison of the Netherlands, Sweden, and Spain, accessed April 18, 2017 from <https://dspace.library.uu.nl/bitstream/handle/1874/12733/c5.pdf>.

APPENDICES

Appendix 1: Green Bond/Green Bond Programme External Review Form

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: DE NEDERLANDSE WATERSCHAPSBANK N.V.

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Review provider's name: Sustainalytics

Completion date of this form: April 21st, 2017

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| ☒ Use of Proceeds | ☒ Process for Project Evaluation and Selection |
| ☒ Management of Proceeds | ☒ Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| ☒ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification | ☐ Rating |
| ☐ Other (<i>please specify</i>): | |

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Social Bond Framework and Second-Party Opinion Document above.
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Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):

This bond framework is aligned with the Social Bond Guidance, and Green Bond Principles (GB) . Combined, the Social Bond Guidance and GBP speak to the social impact of the bond proceeds and to transparency around the selection process, management of proceeds and allocation and impact reporting.

Sustainalytics is of the opinion that the use of proceeds of the NWB Bank Social Bond is aligned with the 2016 Social Bond Guidance, due to (a) the nature of the social projects described in the eligibility criteria, and (b) the targeted nature of the populations served. Additionally, Sustainalytics is of the opinion that basing the eligibility criterion on income level definitions set by a third party ensures that target populations are being defined in a credible manner.

Given the clear need for affordable housing in the Netherlands, the targeted nature of NWB's eligibility criterion ensures the inclusion of disadvantaged and economically marginalized groups. Sustainalytics of the opinion that NWB's social bond will have clear social impact as it addresses a critical gap in affordable housing in the Netherlands.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| ☐ Renewable energy | ☐ Energy efficiency |
| ☐ Pollution prevention and control | ☐ Sustainable management of living natural resources |
| ☐ Terrestrial and aquatic biodiversity conservation | ☐ Clean transportation |
| ☐ Sustainable water management | ☐ Climate change adaptation |
| ☐ Eco-efficient products, production technologies and processes | ☒ Other (please specify):
Affordable Housing |
| ☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Proceeds will be used to finance and refinance 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 based on alignment with the eligibility criteria. 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.

Please note that 'eligible projects/assets' in this Social Bond refers to NWB's loans to Dutch social housing associations.

Evaluation and selection

- | | |
|--|---|
| ☒ Defined and transparent criteria for projects eligible for Green Bond proceeds | ☒ Documented process to determine that projects fit within defined categories |
| ☒ Summary criteria for project evaluation and selection publicly available | ☐ Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|---|
| ☒ Evaluation / Selection criteria subject to external advice or verification | ☒ In-house assessment |
| ☐ Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

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. So long as the Notes are outstanding and the special account has a positive balance, at the end of every fiscal quarter, 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. Sustainalytics is of the opinion that this is in line with market best practices.

Tracking of proceeds:

- | |
|--|
| ☒ Green Bond proceeds segregated or tracked by the issuer in a systematic manner |
| ☐ Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| ☐ Other (please specify): |

Additional disclosure:

- | | |
|--|---|
| ☐ Allocations to future investments only | ☒ Allocations to both existing and future investments |
| ☐ Allocation to individual disbursements | ☒ Allocation to a portfolio of disbursements |
| ☐ Disclosure of portfolio balance of unallocated proceeds | ☐ Other <i>(please specify)</i> : |

4. REPORTING

Overall comment on section *(if applicable)*:

To enable investors to follow the development and provide insight to prioritised areas, the NWB will through its homepage 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 -like:
 - 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:
 - c) Affordability indicator
 - d) Energy and environment:
 - e) Investments in social dwellings by Social Housing Associations
- 5) A summary of the NWB Social Housing Bond development.

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

Sustainalytics is of the opinion that this reporting is in line with market norms.

Please note that 'eligible projects/assets' in this Social Bond refers to NWB's loans to Dutch social housing associations.

Use of proceeds reporting:

- | | |
|--|--|
| ☒ Project-by-project | ☐ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other <i>(please specify)</i> : |

Information reported:

- | | |
|---|--|
| ☒ Allocated amounts | ☐ GB financed share of total investment |
| ☒ Other <i>(please specify)</i> : Outstanding social housing bonds, aggregated lending to eligible projects, non-disbursed cash | |

Frequency:

- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other <i>(please specify)</i> : | |

Impact reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☐ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☒ Other <i>(please specify)</i> : Specific qualitative examples of impact of social housing market |

Frequency:

- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other <i>(please specify)</i> : | |

Information reported (expected or ex-post):

- | | |
|--|---|
| ☐ GHG Emissions / Savings | ☐ Energy Savings |
| ☒ Other ESG indicators <i>(please specify)</i> : See full list of social impact indicators in Section 4. 'Reporting' | |

Means of Disclosure

- | | |
|--|---|
| ☐ Information published in financial report | ☐ Information published in sustainability report |
| ☐ Information published in ad hoc documents | ☒ Other <i>(please specify)</i> : NWB webpage |
| ☒ Reporting reviewed <i>(if yes, please specify which parts of the reporting are subject to external review)</i> : Allocation of social bond proceeds to eligible loans will be audited annually | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| ☐ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification / Audit | ☐ Rating |
| ☐ Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- (i) Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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The client is fully responsible for certifying and ensuring its commitments` compliance, implementation and monitoring.

SUSTAINALYTICS

Sustainalytics is an independent ESG and corporate governance research, ratings and analysis firm supporting investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, Sustainalytics partners with institutional investors who integrate environmental, social and governance information and assessments into their investment processes. Today, the firm has more than 300 staff members, including 170 analysts with varied multidisciplinary expertise of more than 40 sectors. Through the IRRI survey, investors selected Sustainalytics as the best independent responsible investment research firm for three consecutive years, 2012 through 2014 and in 2015, Sustainalytics was named among the top three firms for both ESG and Corporate Governance research. The firm was also named the Best SRI or Green Bond Research Firm by Global Capital in 2015. For more information, visit www.sustainalytics.com

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