Hoeder van de borg

Date 14 juni 2019

Annual report 2018 of Waarborgfonds Sociale Woningbouw

Contents

Key figures

- 306 participating associations at 2018 year-end (98% of all Dutch housing associations).
- Risk capital stood at €534.8 million at 2018 year-end (2017: €530.7 million).
- Participants’ committed capital stood at €3.0 billion at 2018 year-end (2017: €3.1 billion).
- Participants’ loan servicing payments had a face value of €131 billion and a present value of €108 billion at 2018 year-end (2017: €134 billion and €109 billion respectively).
- The value of collateral under the Valuation of Immovable Property Act was €345.9 billion at 31 December 2018 (2017: €330.5 billion).
- The value of guaranteed loans was €79.8 billion in 2018 (2017: €81.0 billion).
- Moody’s Investors Service awarded WSW an Aaa rating with a stable outlook; Standard & Poor’s assigned WSW an AAA rating with a negative outlook.

1. Report of the Executive Board

1. Report of the Executive Board

Mission, vision, strategy and core values

Mission

We enable housing associations to attract funding at the lowest possible cost. We help associations to perform their core activities of building and managing rented social housing.

Vision

We wish to be experts in managing the risks to which approved organisations are exposed, thus helping to sustain the system of rented social housing in the Netherlands

Strategy

We pursue our mission by assessing and managing risks, providing information and guaranteeing loans.

Core values

Our core values are competent, independent, engaged, respectful and trustworthy.

1. Report of the Executive Board

We were faced with a number of exceptional events in 2018. Following the entry into force of the revised version of the Housing Act in 2015, financial difficulties experienced by certain housing associations in the past led to our receiving our first ever guarantee claim in 2018. These events forced us to face up to a new reality that demands that solutions be found to boost the resilience and financial strength of the guarantee system. This was the reason why we launched a strategic programme in 2018 to develop a more robust guarantee system.

2018 also was the year in which we celebrated our 35fth anniversary together with our stakeholders, and continued to strengthen our organisation. We also sought to reinforce the risk framework as part of the vertical supervision programme. More information on this follows below.

1.1 Developments affecting the guarantee system

We received our first ever guarantee claim in 2018. This was the direct consequence of the entry into force on 1 July 2015 of the amended version of the Housing Act. One of the changes brought about by the new law relates to the principle of restructuring. Under the old Housing Act, resolution support was provided more or less automatically to an approved organisation experiencing financial difficulties. The system was aimed at preserving the continuity of housing associations facing financial difficulties. This basic principle changed with the adoption of the amended version of the Housing Act in 2015. Any resolution support provided must now be geared towards sustainment of the ‘vital activities in the general economic interest’ performed by a housing association in financial difficulties. Consequently, it is now possible for an association to qualify only for partial resolution support. Whether an association is eligible for resolution support in respect of ‘vital activities in the general economic interest’ is decided on a case-by-case basis.

Any losses resulting from the bankruptcy of a housing association must be borne by the association’s creditors and financiers. As we guarantee the bulk of the loans made to our participants by lenders (i.e. in the case of 98% of the approved organisations), we, too, are responsible for bearing these losses.

In March 2017, Stichting Humanitas Huisvesting (SHH) submitted an application for resolution support so as to enable another housing association to continue its activities. The application was rejected, following which we decided to assist with the legal operation to split up SHH. Under this operation, all of SHH’s assets and a corresponding part of its loans will be transferred to the Woonbron housing association by 1 July 2019. SHH will continue to hold the remainder of the guaranteed loan portfolio. In 2019, we will be called upon for the first time to honour the guarantees issued in respect of SHH’s remaining loans.

We have formally objected to the decision made with respect to SHH. We believe that, based on SHH’s application for resolution support, SHH should have qualified for full support. For prudential reasons, we have made a provision of €127.8 million for SHH. The size of this provision is based on an estimated possible outflow of funds equal to the loan servicing payments (i.e. payments of principal and interest) for the loans held by SHH, including any additional costs.

In 2018, the Minister of the Interior and Kingdom Relations decided to partially reject an application for resolution support from Stichting WSG (WSG). The Minister decided to grant 55% of the support required and requested, on condition that a lasting solution be found for sustaining WSG’s ‘vital activities in the general economic interest’. As guarantors, we decided to assist in finding a solution that satisfies this condition, given that this will result in the lowest possible guarantee claim.

Based on (among other things) a previous restructuring decision, we have good reason to believe that the restructuring grant will resolve all WSG’s financial problems. This has been confirmed by our legal advisers. We believe that it was always the parties’ intention to restructure WSG fully and in such a way that it would subsequently satisfy our creditworthiness criteria.

WSG itself is also contesting the decision to partially reject the application for resolution support. WSG believes, and claims that it has good reason to be confident, that the Minister has underestimated the number of dwellings classified as being ‘vital to the general economic interest’. WSG claims that the resolution support granted should have been based on a figure of at least 76% rather than on a figure of 55%. Should it become clear, once all legal proceedings have come to an end, that the Minister should have granted WSG full resolution support as requested, or should have provided a larger amount of resolution support, a supplementary resolution grant will be offset against the payments made by us on the basis of the guarantee claim.

In the event, WSG was split up in 2018. We decided to assist with this operation as it will result in the lowest possible guarantee claim. As a result of the splitting up of WSG, all of its assets and a corresponding proportion of its loans were transferred to other regional housing associations. The value of the guaranteed loans still held by WSG represents 45% of the total value of the loss incurred. We will be presented with a guarantee claim to service the loans still held by WSG. We have therefore made a provision of €146.7 million for WSG in the annual financial statements (2017: € 162.7 million). The size of this provision is based on a possible outflow of funds equal to the loan servicing payments in relation to the loans still held by WSG for the next four years. The proceedings under administrative law with respect to SHH and WSG should have reached their conclusion by the end of this period. For prudential reasons, we have raised the provision to 24% of the total value of the claim. This is the same as the percentage of 'non-vital activities in the general economic interest' included in WSG's application for resolution support. Following a review, we decided to decrease the size of the provision relative to 2017.

Due to these guarantee claims, our risk capital is set to fall to €469.4 million in the next five years.[1] This is sufficient as a minimum level. Our risk capital is still comfortably above the level at which we would have to call on our participants' committed capital.

Adequacy of our risk capital
Our reserves consist in the first place of our risk capital, which is intended to be sufficient to meet any guarantee claims. If necessary, we may decide to supplement these reserves by enforcing the collateral provided by the housing association in question (i.e. the housing association in financial difficulties). The assets in question serve as security for the payment by WSW of the housing association's debt servicing obligations under the terms of the guarantee. The remainder of the reserves is made up of the capital committed by the housing associations. The latter are obliged to pay us up to 3.85% of the value of the guaranteed outstanding debt if our risk capital falls below a given minimum level, viz. 0.25% of the guaranteed volume of debt (representing €199.4 million at 31 December 2018). The maximum amount that our participants can be called upon to provide under this arrangement was €3.0 billion as at 2018 year-end.

As a last resort in the event that both the risk capital and the capital committed by our participants prove insufficient, we have a backstop arrangement with the government and the local authorities which gives us access to interest-free loans. This support materialises if our risk capital falls below 0.25% of the guaranteed volume (representing a figure of €199.4 million at 31 December 2018) and is unlimited in theory. The arrangement made with the backstop-providers is that we assess from year to year whether our disposable risk capital (based on the primary and secondary sources) is sufficient to cover any future losses, whether projected or unexpected. Under the statistical method currently used for regulating our capital and assessing the results of the capital adequacy test, the disposable risk capital (i.e. the amount that can be converted into cash at short notice) is defined as the sum of our risk capital, the disposable capital committed by the participants and the value of the resolution support provided.

The requisite risk capital is calculated in two ways, i.e. on the basis the capital ratios to which banks are subject and with the aid of the Ortec scenario model. Both methods quantify the value of future losses (both projected and unexpected), and also estimate the value of losses likely to be incurred by housing associations that are already in default. Our risk appetite states that our disposable risk capital should in all probability (99%) be adequate to cover any losses incurred in one year. If circumstances are such as

[1] Our risk capital is defined as investments valued at the cost of purchase (or the stock-market value, if lower) plus cash, less liabilities consisting of creditors, accrued liabilities, and loan capital excluding provisions for guarantee obligations.

to prevent us from meeting this capital adequacy test, we are obliged to take action to bring our risk capital to an adequate level as quickly as possible.

In 2017, we presented a new dynamic method for regulating our capital and assessing the results of the capital adequacy test. In 2018, Deloitte validated the proposed method and controls. We will be examining Deloitte's findings and recommendations more closely in 2019, and adjusting our models and methods accordingly.

Acting in conjunction with the Ministry of the Interior and Kingdom Relations, we found that the dynamic method represents an improvement on the agreed statistical method. Pending the implementation of the recommendations made during the validation, the dynamic method has not yet been incorporated in the written arrangements made with the backstop-providers. On the basis of the agreed statistical method, we came to the conclusion that our risk capital satisfied the capital adequacy test in 2018. The value of the disposable risk capital was €3.6 billion, as compared with a requisite risk capital of €3.2 billion.

Continuity of WSW

Given the way in which the system works, based as it on the Regulations for Participants and the backstop agreements reached with the Dutch government and the Association of Netherlands Municipalities, guarantee claims do not affect our long-term viability. In discharging our responsibilities, we seek to ensure that the capital base of the guarantee system (i.e. our own risk capital plus the capital committed by our participants) should in principle be sufficiently robust. Our risk appetite stipulates that our disposable risk capital should in all probability (99%) be adequate to cover any losses incurred in one year. If circumstances so require, we may make a claim on the backstop under the terms of the backstop agreements made with the government and local authorities. We have sufficient cash at our disposal in the years ahead to be able to meet our guarantee obligations if a claim is made.

Rating

We have been assigned a AAA rating by both Moody's Investors Service and Standard & Poor's. Moody's issued a stable outlook in its latest report published in July 2018. Standard & Poor's issued a negative outlook for us (an indication that the rating may be lowered at the next assessment) in its July 2018 report. The reason given for this was that the resilience of the security structure would be put to the test if our risk capital were to shrink further in the coming 24 months. If this were to be accompanied by diminished support from participants and backstop providers, S&P may decide to downgrade our creditworthiness by one or more notches.

A strategic programme for reinforcing the guarantee system

The settlement of SHH and WSG's financial problems has made clear to us that steps must be taken to enhance the resilience and financial strength of the guarantee system. The guarantee system must be reinforced. In order to enable housing associations to continue to borrow at the lowest possible cost, we launched a strategic programme in 2018 to improve the robustness of the guarantee system. We intend to achieve this by making improvements in three areas: strengthening our risk capital, improving our security structure, and expanding our funding tool-kit. We will be fleshing out the details of the strategic programme in 2019, together with our backstop providers and participants. Our aim is to reach a broad agreement on the general thrust of a solution together with our stakeholders by mid-2019. We intend to finalise the details in the second half of 2019.

The past year has also made clear that there is a possible conflict between our roles as a guarantor and as a restructuring entity. Together with the Ministry of the Interior and Kingdom Relations, we will be drawing up proposals for positioning our restructuring role relative to our guarantor role and for defining the scope of the restructuring framework. The proposals will be made within the framework of the current restructuring system, under which the guarantor bears prime responsibility for the settlement of financial losses based on the principle of keeping any losses to an absolute minimum. Where necessary in order to safeguard the system of rented social housing (i.e. if it is in the public interest), the resolution authority may decide as a last resort to provide additional aid in the form of resolution support in order to safeguard this specific public interest. The social housing sector must take the initiative in finding a timely, practically viable and acceptable solution. The cost of resolution support is levied from the housing associations. Where possible, we will seek to formulate more objective terms for the granting of resolution support.

Supervision exercised by the Dutch Authority for Housing Associations

Following the amendment to the Public Housing (Approved Organizations) Decree which came into force on 1 July 2016, we were made subject to the supervision of the Dutch Authority for Housing Associations. In a nutshell, the purpose of bringing us under public-law supervision is to manage the financial risks relating to our backstop arrangements. The Authority for Housing Associations is finalising its supervision findings relating to the 2018 financial year.

The main findings from the Authority's supervision of us in 2018 relate to compliance with policy rules.

With respect to compliance with the first policy rule (i.e. guarantee options), the Authority has found that compliance is uncertain, as it has assessed the adequacy of the risk capital as calculated by us as being uncertain, which means that the backstop may have been raised as a result.

The Authority believes that this uncertainty is caused mainly by the manner in which we have calculated the amount of risk capital required for Vestia. We agree that definitions may be subject to different interpretations and will be taking action as part of the strategic programme in order to minimise the risk. We also assessed the adequacy of our disposable risk capital from a number of different perspectives and concluded that it is adequate. The assessment took account of the change from a valuation based on present value to a valuation based on market value adjusted for sector-specific conditions. When making this assessment in 2019, we will be using the same valuation (i.e. market value adjusted for sector-specific conditions) as is used throughout the social housing sector.

With regard to the calculation of the amount of capital required for Vestia, our interpretation of the first policy rule differs from that of the Authority. Our calculations are based on an expert estimate of the loss incurred by Vestia, given that we have classified Vestia as being 'in default'. This is on account of the fact that Vestia is still undergoing restructuring and that financial projections based on present value suggest that there are no prospects of Vesta complying with the guarantee requirements on its own and sustainably within a reasonable period of time and in any event within a maximum of 10 years.

The Authority believes that we should take a different approach to this calculation, i.e. by including Vestia in our calculations of future losses (both projected and unexpected) or by basing the calculation on the amount of resolution support required, as shown in a fresh application for resolution support. In response, we have undertaken to take a detailed look in the near future at action that could minimise the degree of uncertainty surrounding the adequacy of our disposable risk capital. In addition, our strategic programme seeks to reinforce the guarantee system, including the capital policy.

The Authority found that we were sufficiently compliant with the second policy rule (i.e. guaranteeing loans) in respect of the guidelines for guaranteeing loans raised by participants. Our compliance with the guidelines for the raising of unguaranteed loans by participants was assessed as being uncertain in 2018, as the Authority concluded that we do not adequately manage the risks relating to the raising of unguaranteed loans. The Authority is sufficiently confident that the uncertainties surrounding compliance with the second policy rule will be minimised in the near future.

1.2 Vertical supervision

During the financial year, we continued to work on vertical supervision together with the Dutch Authority for Housing Associations, the supervisory authority for housing associations. We have intensified our cooperation to ensure that housing associations are assessed in a uniform and transparent manner. Early in 2018, we signed a partnership covenant with the Authority, setting out the details of our partnership and describing the type of information we share with each other. The Authority is primarily concerned with the governance of housing associations, while our interest lies in their business models. We work together in jointly assessing the financial position of housing associations.

At the start of 2018, we presented a joint assessment framework to the housing sector for consultation. We finalised the assessment framework after processing the valuable feedback we received from the sector. We will be using the new assessment framework as from 1 January 2019 to jointly assess housing associations together with the Authority. We have not yet formulated a finalised set of criteria; this will be done during the course of 2019.

The covenant and the joint assessment framework will help to strengthen the risk framework by ensuring that opinions, measures and interventions are more robust, and that communications between us and the Authority are more transparent. We will avoid any duplication of work, thus relieving the administrative burden placed on housing associations. We will be working together on the formulation of detailed criteria early in 2019.

1.3 Our organisation in 2018

Following two selection procedures, our new board members joined us in February and April. Staff and stakeholders said farewell to the departing board members in March and April. In line with the long-term policy plan, our staff put the 2018 annual plan into effect. One of the topics of the long-term policy plan is the structure of the organisation, centring on vesting ownership in our staff. By way of preparation, we already implemented a programme of empowerment in 2017. This is reflected in the design of our job classification system which, since January 2018, has incorporated (generic) roles with associated dynamic and specific roles, which also describe powers and responsibilities.

The next step was to create an organisational model that enabled us to further boost staff empowerment. In a pilot study, a small group of staff and team leaders explored self-organisation models. Our new Executive Board endorsed the concept of self-organisation. The board's paper on our mission, vision, strategy and core values outlines two possible organisational models: one with no management layer and the other with a single management layer to replace the current model with two management layers. Both models were discussed and evaluated at all levels throughout the organisation. Based on the outcome of this evaluation, the board announced that it is proposing to dispense with the role of manager at WSW. The new organisational model will include a layer of team leaders and an Executive Board with a coaching style of leadership. We will be implementing the new model in the first half of 2019, in conjunction with the Works Council.

1.4 Staff

The rate of absenteeism due to illness rose slightly in 2018 relative to 2017, a year in which the rate was low. The rate of absenteeism due to illness with 3.51% in 2018, compared with 2.84% in 2017. This rise was due mainly to a longer period of prolonged absence on the part of a single member of staff (from 0.18% in 2017 to 2.60% in 2018). There was a decline in the rate of medium-term and short-term absenteeism.

We bid farewell to eight of our colleagues in 2018 and welcomed fifteen new members of staff.

Number of FTEs	**31 Dec 2018**		**31 Dec 2017**
Department	No. of FTEs		No. of FTEs
Accounts	17.6		16.8
Operations & Control (incl. Information Management)	12.6		15.6
Executive Board (incl. Management Support)	9.8		8.8
HRM	6.2		5.8
Risk Management	13.8		8
Total	59.9		55

Table 1: number of FTEs

1.5 Information management

Having launched a project called Optimising Process and Systems (OPS) in 2017, which sought to optimise the way in which we manage, plan and control our business processes, we identified a number of possible improvements in our processes and systems in 2018. As part of the project, we will be replacing our current workflow, DMS and CRM systems with a more future-proof and more flexible system. A new supplier is designing a dedicated application for us (called ‘WSW Information Management’) that should satisfy all our current requirements and preferences, and also incorporate all the various improvements generated by the OPS project. We expect the first stage of the application to be ready in the second quarter of 2019. The application will then be refined during the remainder of the year.

The way in which information is shared among querying parties in the housing sector was redesigned in 2018. Corpodata was replaced by *SBR-wonen*, which meant that the infrastructure for receiving files changed with effect from the date of submission of the projections for 2018. We completed the connection to the Digipoort portal in 2018. In addition, we created an infrastructure for receiving XBRL files from *SBR-wonen* and adjusted the Data Warehouse to enable it to process XBRL files.

1.6 Financial data

Financial result

We earned a positive operating income of €6.0 million in 2018 (2017: -€282.3 million). This includes a figure of €1.3 million released as a result of the re-evaluation of the provision for guarantee obligations, which was formed to settle the debts of SHH and WSG.

Our investment portfolio made a profit of €3.8 million in 2018 (2017: -€0.7 million), consisting of positive interest income and a negative balance of (unrealised) capital gains and losses. The result after corporation tax is €7.8 million, which has been recognised in the financial statements as a €10.7 million transfer to the contingency reserve and a €2.9 million withdrawal from the investment reserve.

Provisions

The 2017 financial statements include a provision for guarantee obligations to settle the debts of SHH and WSG. This provision was re-evaluated in 2018. Each year, we decide whether provisions need to be made for situations we are uncertain about or in which we believe that a housing association is unable to solve its financial problems on its own. At year-end, we assess whether provisions should be made for ‘defaulting’ housing associations. We designate an association as being in default if it has not put a restructuring plan in place which indicates to our satisfaction that the association will be able to meet our ratios within ten years without any need for resolution support or if the relevant restructuring plan is not proceeding according to that plan, as a result of which a guarantee claim is likely to follow.

Corporation tax

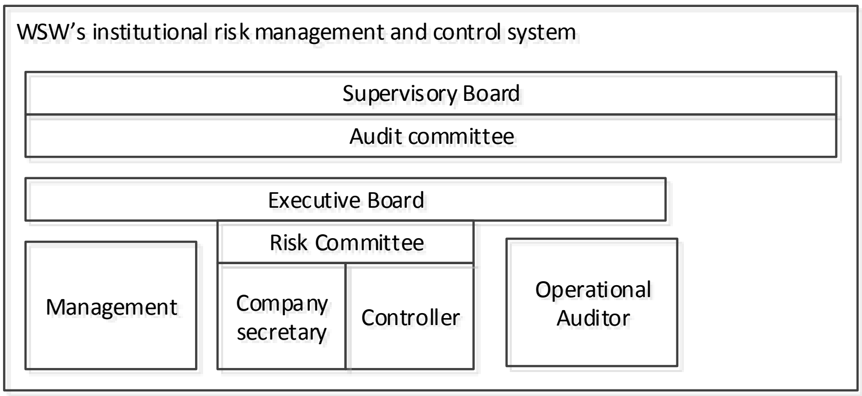
We have been in consultations with the tax authorities since December 2018. These consultations were prompted by various developments. First of all, the advance tax agreement concluded with the tax authorities on 1 December 2015 expires on 1 January 2019. Secondly, all sorts of different factors affect the agreements made about the provision for guarantee obligations. The aim of our consultations is to re-evaluate the arrangements made in the advance tax agreement about the provision for guarantee obligations as calculated for tax purposes. We also want to make arrangements about the recognition for tax purposes of provisions made for guarantee claims and about the recognition for tax purposes of the participants’ committed capital in a manner that is appropriate to the guarantee system.

2. Risk management

2. Risk management

Our risk management system is based on managing two types of risks, i.e. the risks inherent to the guarantee system and the risks to which we as an institution are exposed. This section describes how we structure and design our system of managing and controlling risks in order to ensure that we conduct our business operations in a controlled and sound manner. This section also sets out the main risks and uncertainties that we have identified as being relevant to WSW as an institution.

Risk management and control system
The figure below shows all committees, roles and departments involved in our risk management and control system.



The members of the Executive Board and the senior managers together bear prime responsibility for ensuring that we conduct our business operations in a controlled and sound manner. The Executive Board defines the risk appetite, adopts a robust risk management and control system, approves changes, and periodically reviews the system's structure and practical effectiveness. Senior management is responsible for ensuring that adequate business processes have been put in place, and for identifying and managing operational risks in accordance with both the risk appetite and statutory regulations.

The Risk Committee advises the Executive Board on decisions about the risk management and control system.

The Operational Auditor provides the Executive board with assurance that the risk management and control system is both well designed and effective in practice, and advises on any improvements it believes should be made. We have outsourced the Operational Auditor role to BDO Consultants B.V. The Executive Board performs an annual review of the risk management and control system and of the position, role and performance of the Operational Auditor. We appointed an internal auditor in March 2019, who will be acting as the Operational Auditor in conjunction with BDO.

Our operational audit activities focused in 2018 on compliance with policy rules, setting the guarantee ceiling, and the management of special accounts. We found that the way in which processes are designed and managed ensures that we achieve our goals. There was a high degree of compliance with policy rules in 2018. We shared the reports of our Operational Auditor with our supervisory authority (the Dutch Authority for Housing Associations), which incorporates the findings in its ongoing supervisory activities.

Main risks

We are planning to develop an Enterprise Risk Management (ERM) dashboard for active risk monitoring in 2019. We expect to launch the dashboard in June 2019.

The figure below shows the main risks to which we are exposed as an institution, as relevant in 2018 and in 2019 until the date of completion of the ERM dashboard. We identify our risk management aims by comparing the estimated risk score (i.e. the potential impact of the risk and the likelihood of it materialising after the risk management measures have been implemented) with the risk appetite (i.e. the envisaged risk score). The figure also shows the trend in the risk score relative to our 2017 Annual Report.

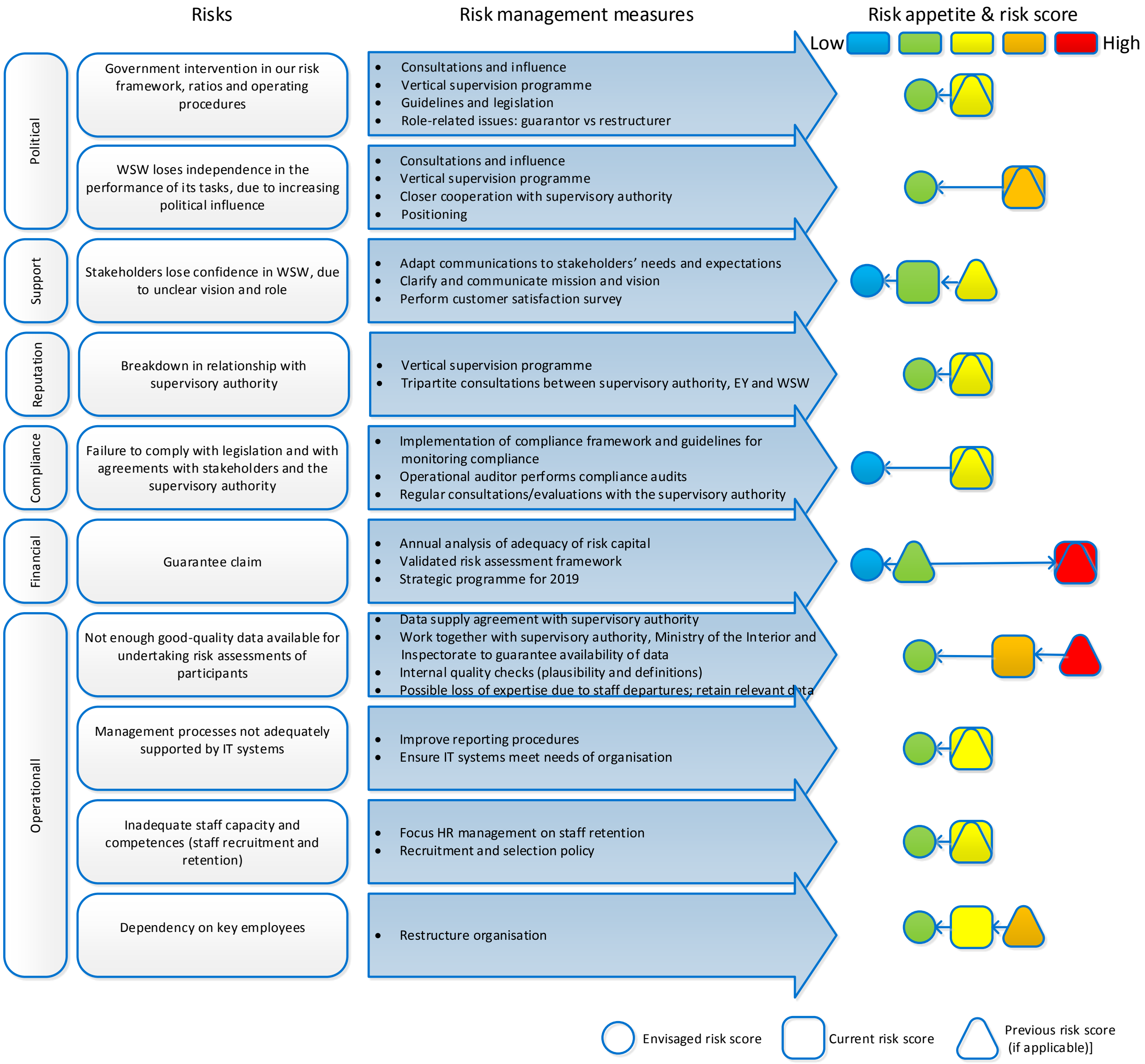


Figure 1: Trend in WSW's risk exposure

We have categorised the 'guarantee claim' risk as being high, now that we have received guarantee claims in respect of SHH and WSG. The robustness of the guarantee system has been placed under pressure by the consequences of the decisions taken on the applications for resolution support made by SHH and WSG. It is not clear exactly how much risk we may be facing and how large the reserves should be that we need to maintain to hedge these risks. We have concluded the guarantee system needs strengthening and will be assessing what action needs to be taken in the first half of 2019. Any additional measures needed to strengthen the guarantee structure will be taken in 2019.

In previous years, we perceived the dependence on key employees as constituting a high-level risk. In the meantime, we have made considerable progress in terms of information-sharing among management and staff. We have achieved effective cooperation built on mutual trust, with a clear allocation of responsibilities. Due to the limited size of our organisation, a dependence on key employees continues to be a risk.

We are now experiencing less uncertainty about the prompt availability and quality of the data we need in order to perform our core business. With effect from the date of submission of the projections for 2018, the wide-ranging and complex process of data retrieval querying process has been placed in the hands of the *SBR-wonen* supply chain team. *SBR-wonen* is implementing a covenant for improving information disclosure in the housing organisations sector. There were no major problems with the submission of the projections for 2018. Reporting information will be submitted through *SBR-wonen* for the first time in 2019. In view of our dependence on data retrieval and because the submission of reporting information through *SBR-wonen* is still under development, there is a medium-level risk that data will not be delivered on time or that the data will not be of sufficient quality. We have, however, assessed this risk as being somewhat lower than in 2017.

The risk of 'stakeholders losing confidence in WSW, due to unclear vision and role' has diminished now that we have reviewed our mission, vision and strategy. We have defined our strategy for the years ahead together with our external stakeholders and staff. In 2018, the events surrounding the restructuring of housing associations in the light of the amended Housing Act highlighted a number of problems relating to our position and the structure of the guarantee system. We are planning to fine-tune our strategic positioning in 2019.

3. The funding of the guarantee system

3. The funding of the guarantee system

3.1 New guaranteed loans in 2018

In 2018, we guaranteed 656 new loans for refinancing loan repayments or for funding the capital needs of housing associations. The total value of the guaranteed loans raised is €5.8 billion, a rise of €0.9 billion relative to 2017. With a market share of 87.6% based on the value of guaranteed debt, sector banks provided the bulk of new loans. This is an increase of 8.9% relative to their market share of 78.7% in 2017. The market share of institutional investors fell to 9.4% of the value of new loans, a 2.8% decline. Housing associations obtained 1.9% of their new loans from commercial banks, representing a 6.5% decline in 2018, compared with a 7.9% increase in 2017. Finally, housing associations raised 1.1% of their new loans in 2018 from other housing associations.

Lender	2014	2015	2016	2017	2018
Commercial banks	0.5%	0.0%	0.5%	8.4%	1.9%
Institutional investors	21.3%	15.6%	14.8%	12.2%	9.4%
Dutch public authorities	0.1%	0.1%	0.6%	0.0%	0.0%
Sector banks	78.2%	84.3%	84.1%	78.7%	87.6%
Other housing associations	0.0%	0.0%	0.0%	0.6%	1.1%

Table 2: Market shares by volume, according to type of lender of new loans in 2018

At 19 years, the average maturity of new loans was unchanged compared with 2017 Housing associations contracted 81% of their loans at fixed interest rates and 19% at variable interest rates. At 1.57% in 2018, the average interest rate on new fixed-rate loans was lower than in 2017 (1.71%).

3.2 Changes in the guaranteed loan portfolio

Guaranteed volume	2014	2015	2016	2017	2018
Guaranteed volume	85.1	83.8	82.2	81.1	79.8
New loans	4.8	4.9	3.6	4.9	5.8
Repayments	-5.9	-6.2	-5.1	-6.0	- 7.1

Table 3: Changes in the guaranteed volume

The total volume of guaranteed loans fell to €79.8 billion in 2018 (2017 year-end: €81.1 billion). Housing associations repaid a total of €7.1 million on these loans in 2018. On balance, therefore, the volume of outstanding debt in the guaranteed loan portfolio declined by €1.3 billion.

The number of guaranteed loans fell to 12,421 in 2018, from 12,836 in 2017. The total sum of the debt servicing obligations deriving from loans guaranteed by us stood at €131 billion at the end of 2018. The cash value of debt servicing payments was €108 billion at 2018 year-end, with payments of interest and principal calculated on the basis of the maturity schedule and swap rates as at 31 December 2018.

4. Individual housing associations

4. Assessment of risks facing housing associations

We assess the risks to which our participating housing associations are exposed at least twice a year. We base our risk assessments on both projections or forecasts (dPi) and reporting information (dVi). Data analysis provides us with a first quantitative indication of risks, after which we assess the qualitative elements. If necessary, we ask associations to supply us with additional documentation, so as to give us more information on their policy decisions, their accounting procedures and internal controls. Our account managers also meet with executives and other staff from housing associations to learn more about risk exposure and how this is managed.

Our assessment of the current and future financial position of a housing association, together with the operational risks facing the association, results in a risk score (and rating) for the association in question. Together with the size of the association's guaranteed loan portfolio, this risk score determines the association's position and, more specifically, colour in our risk classification table (see Table 4 below).

Guaranteed debt	Category 1 ≤ €250m	Category 2 > €250m and ≤ €1bn	Category 3 > €1bn	Total
High risk score	3 participants €0.2 billion	2 participants €0.8 billion	1 participant €4.5 billion	6 participants €5.5 billion
Medium risk score	27 participants €2.3 billion	15 participants €5.6 billion	2 participants €5.3 billion	44 participants €13.2 billion
Low risk score	183 participants €16.3 billion	61 participants €27.2 billion	12 participants €17.6 billion	256 participants €61.1 billion
Total	213 participants €18.8 billion	78 participants €33.6 billion	15 participants €27.4 billion	306 participants €79.8 billion

Table 4: Portfolio of housing associations according to risk classification

The portfolio was composed as follows in 2017, based on the risk classification:

Guaranteed debt	Category 1 ≤ €250m	Category 2 > €250m and ≤ €1bn	Category 3 > €1bn	Total
High risk score	4 participants €0.2 billion	3 participants €2.0 billion	1 participant €4.6 billion	8 participants €6.8 billion
Medium risk score	26 participants €2.0 billion	17 participants €7.0 billion	3 participants €6.8 billion	46 participants €15.8 billion
Low risk score	195 participants €16.2 billion	61 participants €25.9 billion	11 participants €16.4 billion	267 participants €58.5 billion
Total	225 participants €18.4 billion	81 participants €34.9 billion	15 participants €27.8 billion	321 participants €81.1 billion

Table 5 Portfolio of housing associations according to risk classification as at 31 December 2017

The total number of associations fell to 306 in 2018 (2017: 321). The volume of the outstanding guaranteed debt decreased to €79.8 billion (2017: €81.1 billion).

The number of associations in the red risk category declined in 2018 from 11 to eight, and the guaranteed loan portfolio classified as red shrank by €2.9 billion. There was a slight fall in the number of associations in the yellow risk category, from 55 to 54; the outstanding guaranteed debt classified as yellow, however, climbed by €0.2 billion. The number of associations in the green risk category fell to a total of 244, from 255; the outstanding guaranteed debt classified as green rose by a total of €1.4 billion.

4.1 Special accounts

At the end of 2018, 16 housing associations had been given active treatment status. Transfers to our special accounts portfolio are based on the risk score, together with any reports or warnings we receive or evidence of incidents. There is an operating procedure for special accounts which specifies when accounts are transferred to special accounts. This may for instance be if the supervisory authority has placed an association under stricter supervision for governance reasons. Associations classified in the red risk category are automatically given active treatment status. At 2018 year-end, our special accounts portfolio included eight associations.

Eight of the 54 associations classified as yellow fall under special accounts based on the above criteria. The special accounts portfolio shrank by five associations in 2018, and the guaranteed volume of the debt owed by the associations under special account management fell by approximately €1.2 billion. This means that the decline in the number of associations and the guaranteed volume of debt under special accounts management, which was first observed in 2017, continued into 2018. The five associations that were removed from special accounts in 2018 had their status lifted either because they achieved a financial turnaround on their own or because they merged with other associations. No associations were transferred to special accounts in 2018. The volume of loans given active treatment status is largely attributable to the presence of ten large associations in special accounts.

Special Accounts portfolio	2017 year-end	2018 year-end
Recovery scheme in operation	18	13
Reorganisation scheme in operation	1	1
Restructuring plan in operation	2	2
Total in Special Accounts	21	16
Guaranteed volume (€ billion)	14.9	13.6
Total portfolio as % of total guaranteed volume	18.3	17.1

Table 6. Special Accounts portfolio

4.2 Housing associations undergoing restructuring

Two housing associations underwent restructuring in 2018, i.e. WSG and Vestia.

WSG

On 29 June 2018, the Minister of the Interior and Kingdom Relations decided to partially award an application for resolution support from WSG. The Minister's decision was to grant a maximum of 55% of the amount needed to complete the ‘jigsaw puzzle’ in the restructuring plan. The cost of the jigsaw puzzle model is estimated at approximately €567 million. We will be receiving a guarantee claim for the remaining loans that cannot be redeemed with the aid of resolution support (i.e. 45% of the total). We agreed with WSG to assist with this operation with a view to minimising the losses, and have made a provision of €146.7 million for this claim.

With effect from 1 January 2019, eight other regional associations took over all WSG’s registered property and the bulk of its debts. Part of the value of the remaining loans was repaid with the aid of the resolution support granted earlier this year. We will be discharging the debt servicing obligations for the loans still held by WSG from that date, under the guarantee claim.

Vestia

Our risk exposure to Vestia remains unchanged at the time of writing. Vestia’s financial position is such that it will be able to meet all its obligations in the years ahead. Thanks mainly to the fact that its cash flow from operating activities meets the target set and continues to do so in its long-term projections, Vestia is in a position to meet its debt servicing obligations on its own. As we consequently believe the risk of a guarantee claim to be very slight, we have not made a provision to this end.

5. Cash-flow forecast

5. Cash-flow forecast for 2019-2023

We are bound by contract with the Dutch government and the Association for Netherlands Municipalities to submit an annual cash-flow forecast for the next five years. This Annual Report includes our cash-flow forecast from 2019 to the end of 2023. It takes account of current claims and is based on an assumption that there will not be any new claims. We base our outlook on information and projections provided by housing associations.

Movements in risk and guarantee capital

We guarantee the debt servicing obligations of participating housing corporations. Any obligations potentially arising from the guarantee are covered by our risk capital and the participants' committed capital. If our risk capital falls short due to guarantee claims, we call upon the participants' committed capital. If our risk capital falls below 0.25% of the guaranteed residual debt, the government and the relevant local authority or authorities supply us with interest-free loans in accordance with the backstop arrangements. The level of risk capital is sensitive to the trend in interest rates in the investment portfolio. Our risk capital will decline by approximately €27.2 million at 2019 year-end if interest rates climb by 1% (the maturity of the investment portfolio was 5.22 years at 2018 year-end).

The outlook for risk capital, participants' committed capital, guaranteed residual debt, and the guarantee level at which the backstop providers are obliged to extend interest-free loans is as follows.

Year-end (T)	Risk capital	Participants' committed capital	Guaranteed residual debt (T-1)	Guarantee level (T-1)
2019	€521.9 million	€3,127 million	€79.8 billion	€199.4 million
2020	€509.1 million	€3,212 million	€82.6 billion	€206.5 million
2021	€496.5 million	€3,253 million	€84.8 billion	€212.1 million
2022	€481.1 million	€3,280 million	€85.9 billion	€214.7 million
2023	€469.4 million	€3,307 million	€86.6 billion	€216.5 million

The above outlook includes estimates of the guarantee claims made by WSG and SHH. We expect to know the exact amount of SHH's guarantee claim by mid-2019.

Due to the provisions made, there is a material difference between the capital and the risk capital. This is because the risk capital is based on the cash outflow. The provision is deducted from the capital.

We call upon our participants' committed capital as soon as we know, or reasonably expect to know, the extent of the guarantee claim. The nature and extent of the claim are important in calculating the amount of committed capital that needs to be invoked. Based on the current arrangements, this may not exceed 3.85% the guaranteed residual debt.

6. Financial statements

7. Report of the Supervisory Board

7. Report of the Supervisory Board

7.1 Introduction

The report of the Supervisory Board explains how the Board fulfilled its supervisory and advisory role in the past year. In performing its duties, the Supervisory Board acts in the interests of WSW as laid down in the constitution. The Supervisory Board supervises the policies pursued by the Executive Board and the general state of affairs at WSW. In addition, the Supervisory Board offers advice to the Executive Board (both asked and unasked) and acts as the employer in respect of the Executive Board.

7.2 Structure and operating procedure

The Supervisory Board consists of at least five members. Each member must be able to assess the main thrust of WSW's policies. All Supervisory Board members also have their own specific expertise as is needed to perform their duties. The composition of the Supervisory Board is intended to ensure diversity, not only in terms of gender, but also in terms of knowledge, professional background, age, personality and experience in dealing with WSW's stakeholders. The Supervisory Board wishes to achieve a balanced composition and a good spread of expertise and networks. This requires the bringing together of knowledge and networks in relation to politics, public governance, finance, economics, risk management, law, information technology and social housing.

The powers of the Supervisory Board are laid down in the constitution. Its operating methods are described in its rules of procedure. The Board has two committees: an audit committee and a remuneration committee, each with its own rules of procedure. The committees advise the Supervisory Board on topics within their remit and prepare the ground for the Board's decisions. This does not affect the Board's responsibility for its own decisions.

The Supervisory Board was composed as follows in 2018:

Member	In office
H.M. Meijdam (chair)	Since 1 February 2018; first term of office ends on 1 February 2022
J.G.I.M. Reijrink	From 1 July 2008 to 1 January 2019
Professor J.H. Garretsen	From 1 September 2012 to 1 July 2018
J.E.M. Tijhuis	Since 11 June 2014; first term of office ends on 11 June 2020
G. van Vollenhoven-Eikelenboom AAG	Since 1 February 2018; first term of office ends on 1 February 2022
J.G. Pot	Since 25 September 2018; first term of office ends on 25 September 2022

The vacancy that arose on 1 July 2018, when Professor Garretsen's term of office ended, was filled on 25 September 2018 when Mr J. G. Pot was appointed to the Supervisory Board. The recruitment procedure to fill the vacancy that arose on 1 January 2019, when Mr J.G.I.M Reijrink's term of office came to an end, is ongoing at present.

Audit committee

Mr Reijrink and Ms Tijhuis acted as the chair and member of the audit committee respectively. The audit committee met four times in 2018. Among the topics discussed were the 2017 annual report and accounts, the stress test performed for the annual accounts, the external auditor's reports, the activities of the operational auditor, the management measures taken in response to the findings of BDO (the operational auditor), WSW's risk management, and the external asset management. The Executive Board and the financial controller attended the audit committee meetings. The external auditor attended the discussions of various relevant topics.

Remuneration committee

Between 1 January and 1 July 2018, the remuneration committee consisted of Professor Garretsen. Since 1 July 2018, the remuneration committee has comprised Ms Van Vollenhoven (chair) and Mr Meijdam (member). The remuneration committee prepares for Supervisory Board decisions on the composition, operation and remuneration of the Executive Board and the Supervisory Board. The committee generally meets in the absence of the Executive Board. The remuneration committee held several meetings in 2018. Where necessary, it discussed topics in a broader setting with the full Board, after which the Supervisory Board took a decision during a plenary meeting. Among the topics discussed by the remuneration committee were the departure of Executive Board members, the transition to a new management model, the recruitment of new Executive Board and Supervisory Board members and their remuneration. The works council and the supervisory authority are both involved in the recruitment of new Executive Board and Supervisory Board members. The supervisory authority's role is to ensure that nominees are fit and proper.

Conflicts of interest

The Supervisory Board's rules of procedure include guidelines on how to act in the event of actual or potential conflicts of interest. In the course of its activities, the Board assesses whether there is or may be any undue conflict of interests, or the semblance of such a conflict, in relation either to the Board as a whole or to individual members. There was no conflict of interests, whether actual or apparent, in 2018.

7.3 Activities

The Supervisory Board concludes that WSW remained fully committed in 2018 to the aim of securing funding for its participants on the best possible terms. This was reflected, *inter alia*, by its risk management of and as part in the guarantee system, and by its quest to further enhance its relationship with participants and stakeholders. At the same time, WSW sought to improve its operating procedures and organisation. The Supervisory Board has taken note of the efforts made and the results achieved by the Executive Board and staff in terms of achieving the corporate objectives, refining the organisational structure and managing the internal and external risks to which WSW is exposed.

The Supervisory Board held ten meetings in 2018. In addition to these meetings, the chairman of the Supervisory Board has regular meetings with the Executive Board. Apart from these regular meetings, the Supervisory Board, or its individual members, also held frequent consultations with the Executive Board. The average attendance of Supervisory Board meetings was 83% in 2018.

The Board was updated on current developments during the course of the year, to enable it to discharge its duties to the best of its abilities. The Board was satisfied with the standard of internal reporting in 2018. The Executive Board is the primary source of information for Supervisory Board meetings. The Board also liaised with the works council. In order to understand the arguments underlying the opinions expressed to the Supervisory Board by the participants' council, a member of the Supervisory Board regularly attends meetings of the participants' council as an observer. The Board also liaises with the executive committee of Aedes (the federation of Dutch housing associations) on a regular basis. Individual Board members inform the rest of the Board about the outcome of all meetings, so as to ensure that the Board as a whole is apprised of all relevant information.

During the year under review, the board discussed the changes in WSW's Executive Board. The Board had decided to adopt a new management model in 2017. The term of office of Messrs Wilders and Breij ended on 1 March and 1 April 2018 respectively. Mr R. Rötscheid was appointed as chair of the Executive Board with effect from 1 February 2018, and on 17 April 2018, Mr J. van Kalsbeek assumed his duties as Chief Risk Officer.

The Board also held a number of meetings with the Executive Board on the issue of restructuring and the impact on the guarantee structure of the restructuring decisions taken with respect to SHH and WSG. WSW received its first ever guarantee claim in 2018. The claim was made as a result of the amended Housing Act, which became effective on 1 July 2015 and which changed the restructuring principles. The practical effects of the amended Housing Act made themselves clear for the first time in the two cases mentioned above. The experience with the resolution of SHH's and WSG's financial problems also underlined the need to take action to increase the resilience and financial strength of the guarantee system. This lies at the heart of the 2019 strategic programme, which seeks to ensure that WSW is supplied both the right set of tools and sufficient capital. The Supervisory Board will be closely monitoring the implementation of this programme.

The year under review also highlighted the tensions between WSW's dual roles, i.e. as a guarantor and as a restructuring entity. WSW has submitted proposals to the Ministry of the Interior and Kingdom Relations for putting an end to much of this potential conflict of interests. The issue remains a topic of concern and will form part of the evaluation of the Housing Act. The Board will also closely monitor developments in this respect. The settlement of SHH's and WSG's financial difficulties also affected the preparation of the annual report and the financial statements for 2017. The audit committee was closely involved in this. The two reports were finalised and approved in September 2018.

In October 2018, the new Executive Board and the virtually new Supervisory Board met to discuss the Executive Board's initial experiences and its ideas about the future of WSW. The meeting focused on WSW's added value, its restructuring role, the strengthening of the guarantee system and the impact of the latter on WSW. WSW's organisational structure was also discussed. The Executive Board wishes to adopt a more project-style organisation, and intends to promote the professional development of staff by creating ownership. In view of the changes in the composition of both the Supervisory Board and the Executive Board, mutual expectations were shared with each other. Trust, transparency and demarcation of roles, and a good working relationship are the elements at the core of these expectations.

The Supervisory Board decided to amend the constitution in 2018. The new constitution gives the Board powers of approval with respect to the threshold value of actions aimed at minimising losses, and also grants WSW the option of taking more time to prepare the annual financial statements and the annual report.

The Supervisory Board approved the Executive Board's decisions with respect to the annual plan and the budget for 2019, the adjustment of the policy rules on restructuring, the extension of the deadline for publication of the annual report and the annual financial statements, compliance with the implementation agreement for SHH, an implementation agreement between WSG and WSW, the amendment of the mandate for restructuring, the policy on total risk exposure, the supplement to the supervision and accountability agreements concluded with the government and the Association of Netherlands Municipalities, the joint assessment framework agreed between WSW and the supervisory authority (including the amendment of supervision and accountability agreements), and the charter of the guarantee committee.

Other topics discussed at Supervisory Board meetings included WSW's positioning, vertical supervision, data retrieval, the supervision of WSW, a staff satisfaction survey, portfolio reports, the status of housing associations subject to special accounts management, and the progress reports on the annual plan.

The external auditor attended the audit committee meetings and the Supervisory Board meetings held to discuss the annual report, the financial statements and the management letter for 2018. During these meetings, the Board asked for auditor's opinion and about the recommendations for improvements and other points raised by the auditor. The Board also adopted the 2018 audit plan.

In early January 2018, the Supervisory Board discussed its own operation during a self-assessment meeting which also addressed the relationship and contacts with the Executive Board. The Board is planning to have its self-assessment supervised by an external expert in 2019.

Our staff and Executive Board were once again called upon to work with tremendous energy and dedication in 2018. We would like to express our appreciation for their commitment and for assisting WSW to achieve its goals and ambitions.

7.4 Remuneration

WSW is subject to the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act. The remuneration of the Executive Board and the Supervisory Board do not exceed the maximum limit set in the Act. Information on the remuneration of the Executive Board and the Supervisory Board is given in the financial statements. The annex to this report lists the main and secondary posts held by the Supervisory Board members.

List of main and secondary posts held by the members of the Supervisory Board

H.M. Meijdam, chair

Main posts

- Managing director of Inter Provinciaal Overleg
- Owner-manager of Bureau Meijdam & Overmars B.V., Bureau voor Markt & Overheid

Secondary posts

- Chair of Supervisory Board of Woningnet N.V.
- Chair of Stichting KOMO
- Member of Supervisory Board of Schot Alkmaar Holding BV
- Non-executive director of Puurt wat Zuurt B.V.
-

Ms J.E.M. Tijhuis, member

Main post

- Chair of Executive Board of Vincent van Gogh Mental Health Care Association

Secondary posts

- Member of Supervisory Board of Viva! health care group
- Chair of FMA-GGZ programme board at Nyenrode University
- Arbitrator on Health Care Arbitration Tribunal
- External reviewer of specialist medical programme of Royal Dutch Medical Association

Ms G. van Vollenhoven-Eikelenboom AAG, member

Main post

- Director of Pension Supervision Division at Dutch central bank

Secondary posts

- Chair of Stichting Beleggers Compensatiefonds
- Member of Advisory Council of master's degree programme in finance at Vrije Universiteit Amsterdam
- Member of Governing Board of degree programme in risk management for financial institutions at Vrije Universiteit Amsterdam

J.G. Pot, member

Main post

- Partner & Chief Financial Officer at Grey Matter Matters

Secondary posts

- Chair of Audit Committee of Ministry of the Interior and Kingdom Relations
- Member of Audit Committee of Ministry of Education, Culture and Science

- Member of Audit Committee of Public Prosecution Service
- Member of Audit Committee of Lower House of Dutch Parliament
- Member of Audit Council of State Property and Development Agency
- Lecturer at National Academy for Finance and Economics
- Member of Advisory Council of Big Improvement Day
- Member of Governing Board of Stichting Prinsjesfestival

8.	**Close and signature**
9.	**Other information and auditor's report**