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WSW 2019 Annual Report and Financial Statements

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Key figures at 31 December 2019

- 291 participant housing associations (98% of all associations).
- Guaranteed loans of €80.0 billion (2018: €79.8 billion).
- Loan servicing payments with a nominal value of €129 billion and a present value of €119 billion (2018: €131 billion and €108 billion respectively).
- Value of collateral under the Valuation of Immovable Property Act of €374.5 billion (2018: €345.9 billion).
- Risk capital of €526.5 million (2018: €534.8 million).
- Participants' committed capital of €3.0 billion (2018: €3.0 billion).
- Moody's Investors Service and Standard & Poor's ratings of AAA with a stable outlook.

1. Report of the Executive Board

Foreword

WSW enables housing associations to attract funding at the lowest possible cost, in part by guaranteeing loans and assessing and managing risks.

In 2019 in addition to our regular work, such as dealing with guarantee issues, setting guarantee ceilings and assessing risks at association and portfolio level, we worked intensively on the strategic programme as explained in detail in various sections below. The programme is designed to further strengthen the guarantee system and allow associations to continue to attract funding at the lowest cost into the future.

We also worked with the Authority for Housing Associations (“Autoriteit woningcorporaties”) on the new joint framework that the Authority and WSW have been using since 2019 to assess associations’ risks with the aim of reducing their administrative burden while also making assessments more effective and efficient.

We are also taking steps to improve our data and information infrastructure and strengthen our risk management and we enhanced the internal organisation. There is more information elsewhere in this report. The report does not address the performance of the mandated resolution role.

Given the structure of the guarantee system, WSW has concluded that the coronavirus crisis is not creating uncertainty with regard to the continuity of WSW. Furthermore, WSW has taken steps to continue guaranteeing loans so that housing associations can obtain financing on favourable terms.

1.1. Report of the Executive Board

The key developments of 2019 are addressed below.

Guarantee claim

The effects of the amended Housing Act on the guarantee system became clear during 2018. We received two claims on our risk capital, from Woningstichting Geertruidenberg (WSG) and Stichting Humanitas Huisvesting (SHH), following the rejection by Minister of the Interior and Kingdom Relations of applications for resolution support from WSG (partial) and SHH (full).

It was decided to legally split up both WSG and SHH. Regional associations took over all WSG’s assets and part of its guaranteed loans from 1 January 2019. Other guaranteed loans were repaid from the full or partial resolution grant received. Another association in Rotterdam took over SHH’s assets and part of its guaranteed loans from 1 July 2019.

WSW is meeting the normal interest and repayment obligations on WSG’s and SHH’s remaining loans covered by guarantees issued by WSW insofar as WSG and SHH are unable to do this themselves. Consequently, we have formed a provision for these guarantee claims in the company financial statements.

Both WSG and SHH are contesting the decisions to refuse a full resolution grant. These proceedings are progressing as expected but have not yet concluded. WSW is also contesting the decisions but this was declared inadmissible in both cases by a court ruling on 9 April 2020. Irrespective of whether WSW appeals against this ruling, it will not affect the proceedings initiated by WSG and SHH. It is not possible to estimate how the measures taken following the outbreak of the coronavirus will affect the progress of the appeal.

Strengthening the guarantee system: strategic programme

Further to the insights from these cases, we started a strategic programme to enhance the resilience and financial strength of the guarantee system, ensure a sufficiently robust guarantee system and allow associations to continue to attract funding at the lowest cost. This programme builds on improvements we had already implemented.

We worked with our stakeholders during 2019 to develop the strategic programme and this resulted in outline arrangements in mid-2019. These were developed further during the second half of the year in close consultation with our stakeholders: our participants and the participants' council, the Ministry of the Interior and Kingdom Relations (BZK), the Association of Netherlands Municipalities (VNG) and the federation of Dutch housing associations (Aedes). An integrated package of measures on the guarantee system, security structure and governance and control was ready by the end of 2019.

We are working on finalising the decision-making with the backstop-providers and the participants' council in 2020 and will start implementing the programme after consultation with the participating associations.

The terms and conditions for the relationship between guarantee and resolution were discussed during 2019 and these will be developed further with stakeholders in the sector, including WSW, under the direction of BZK.

Risk capital adequacy

The current system incorporates various buffers and safety nets:

- The participating associations have their own capital buffers and cash flows.
- Consequently, our risk capital is the first buffer for absorbing guarantee claims. If needed we can supplement it by liquidating the deployed capital from the association in default.
- The second buffer is capital committed by the housing associations. On request, they have to pay WSW 3.85% of the nominal value of their outstanding guaranteed loans if our forecasts show that our risk capital will fall below the minimum risk capital level.
- Finally, we have agreed with our backstop-providers that we can draw interest-free loans if our risk capital falls below the critical limit.

We assess the risks in our participating associations individually and in the guarantee structure as a whole. Each year we test the adequacy of our risk capital to cover projected and unexpected losses with the aim of maintaining a robust guarantee system in the interests of our participants and public housing. We assess whether the *callable* capital is adequate compared with the *risk capital requirement*.

- We define callable risk capital as the sum of our risk capital, the callable capital committed by the participants and the value of the resolution support provided. The callable risk capital is 'adequate' if we can cover losses in the first year with 99% confidence ('in all probability').

- We calculate the risk capital requirement using the capital ratio formula for banks and the Ortec scenario model. Each method quantifies the value of future losses (both projected and unexpected) and estimates the value of losses likely to be incurred by housing associations that are already in financial difficulties.

WSW has concluded from both results that the risk capital is adequate.

Continuity of WSW

Thanks to the agreements with our backstop-providers and our participants, a guarantee claim does not affect the continuity of WSW. In the event of a claim, we have sufficient cash to meet our obligations under the guarantee. Every effort is made to ensure that the capital base of the guarantee system (our risk capital and the capital committed by the participants) is sufficiently robust.

Rating

Credit rating agencies Moody's and Standard & Poor's (S&P) have issued AAA ratings with a stable outlook. This is the same as the rating and outlook for the Dutch State. These high ratings are important to us as they ensure that participants can continue to attract funding at the lowest possible cost. S&P raised its outlook in 2019 from negative to stable.

Supervision of WSW

Since 1 July 2016 WSW has been supervised by the Authority for Housing Associations. A significant matter in 2019 was the uncertainty noted by the Authority about the adequacy of the risk capital. According to the Authority, this was mainly because of the way we had assessed the risk capital requirement for Vestia. We took a different view but initiated several measures to address the uncertainties the Authority had identified.

Both the government and the VNG believe we have taken sufficient appropriate measures to reduce the risks in the short term and by implementing the strategic programme are making good progress on further necessary improvements. In our opinion, Vestia can meet its financial obligations over the next few years. Neither the government nor the VNG believed it was necessary or proportionate to maintain additional financial buffers given the actual risks and the measures taken. Consequently, they do not believe, as the backstop-providers, that we had to implement our decision to increase the value of the resolution support provided and it was later suspended. We, therefore, reversed this decision.

According to the Authority, the measures that have been implemented limit the risk that the backstop-providers will be called upon financially but do not resolve the uncertainty about the adequacy of the risk capital. The Authority, therefore, concluded that without supplementary measures at the request of the backstop-providers there is an enhanced backstop risk for the government and municipalities for the time being. As the government and the VNG have given us time to resolve the current uncertainty, the Authority sees no reason to impose its own measures on us.

1.2. Joint assessment framework

Since 1 January 2019, the Authority and WSW have been using a new joint framework to assess the risks at associations. The joint assessment framework and the underlying partnership covenant mean that assessments will be more effective and efficient and will reduce the administrative burden on the associations.

The Authority and WSW independently arrive at an agreed opinion, based on their own roles and responsibilities. We consult as necessary on the timing and content of possible measures and interventions.

2019 was also a year of transition towards finalised standards framework for financial ratios. Working with the Authority and the associations, we first addressed improvements needed in the quality of the valuations (market value adjusted for sector-specific conditions). After the summer, we worked with the Authority on a set of financial ratios and valuation criteria using the findings on the discontinuity ratios from the strategic programme.

At the end of 2019, we reached policy agreement with BZK and the Authority on the ratios, discussed them with participants and Aedes and issued a formal request for their inclusion in the agreements with the backstop-providers. We will formally conclude this process and notify our participants in 2020.

1.3. The WSW organisation

Structure

In 2019, we decided on a new structure for the organisation prompted by the process of employee empowerment which had already started. Specifically it involves:

- the introduction of a layer of coaching team leaders;
- a redesigned consultative structure;
- adopting coaching leadership as WSW's leadership style;
- training team-leaders in this leadership style.

The new structure is designed to be more effective and efficient by giving professionals scope and responsibility within a set framework.

Strategic workforce planning

Achieving our strategic organisational objectives needs the appropriate workforce. In 2019 we started strategic workforce planning with a focus on the number but more particularly on the quality and development of employees. We will link the strategic workforce planning in 2020 with a vision of organisation still to be defined.

Ethics policy

In 2019 we drew up a code of ethics that offers employees guidance on moral and ethical dilemmas. It has been published on our intranet and there is an ongoing process of keeping it up-to-date and relevant.

1.4. Employees

Number of employees and FTEs

Department	FTEs	FTEs	Employees	Employees
	2019	2018	2019	2018
Accounts	16.6	17.6	17	18
Operations & Control	5.8	5.7	6	6

Executive Board (incl. Management Support)	10.8	9.8	10	10
Facilities	2.4	2.5	3	3
Information management	6.9	7.8	7	8
HRM	2.8	3.7	3	4
Risk management	15.8	12.8	16	13
Total	61.0	59.9	63	62

Absenteeism

The rate of absenteeism due to illness increased in 2019 (4.72%) compared to 2018 (3.51%) mainly due to the increase in long-term illness of three members of staff caused in part by their work and in part by other reasons.

1.5. Information management

As in 2018, the main feature of 2019 was the development of the Optimising Process and Systems (OPS) project as part of a new ERP application (WSW Information Management - WIM).

In 2018, we identified possible optimisations and/or improvements that we wanted in our IT processes and systems. The first sub-projects were handed over since the summer of 2019 and the organisation has worked with the CRM and Management modules in WIM, including documenting and assessing the primary Risk Score process. We expect the remaining primary processes to be handed over during the first half of 2020.

In addition, we worked on a new digital workplace based on the Microsoft Office 365 platform. Migration to this new workplace started in early 2020.

1.6. Finance

Financial result (company)

There was an operating loss before tax of €6.9 million for 2019 (2018: €3.7 million loss) including an addition of €21.3 million to the provision for guarantee obligations (2018: €12.1 million) following a re-evaluation. The provision was formed to settle the debts of WSG and SHH.

There was a positive result on the investment portfolio of €11.7 million in 2019 (2018: €3.8 million) consisting of interest income and net realised and unrealised capital gains. The loss after corporation tax was €10.5 million and this has been incorporated in the financial statements as an addition of €0.4 million to the legal reserve and a withdrawal of €10.9 million from the other reserve.

Provision for guarantee obligations

We re-evaluated the provision for guarantee obligations for WSG and SHH recognised in the financial statements. There have been no events which require the formation of a new provision.

Corporation tax

We discussed our tax position with the Tax and Customs Administration following the end of WSW's advance tax agreement on 31 December 2018. The agreement covered the provision for guarantee

obligations for tax purposes in the opening balance sheet at 1 January 2008 and arrangements for evaluating it when the agreement expired.

Agreement was reached with the Tax and Customs Administration on the tax treatment from 1 January 2019 as the advance tax agreement was not renewed. A provision based on guarantee claims can be formed for tax purposes. A new provision can only be formed for tax purposes after the existing provision has been exhausted. Payments and receipts relating to guarantee claims can be recorded in the provision. This treatment also means that capital committed by participants is recognised as income through the statement of income and expenditure after matching against claims.

Consolidation of WSG and SHH

We entered into agreements with WSG and SHH for the legal separations on 1 January and 1 July 2019 respectively. Each has an independent Executive Board and an independent Supervisory Board. The agreements state that their budgets are subject to approval by WSW. WSW also has control over financial obligations entered into by the two associations that affect the guarantees. It was concluded that the associations have to be consolidated from the date of the separation since, according to the accounting standards, WSW has influence over policy. Consequently, from 2019 we are preparing both company and consolidated financial statements which incorporate the financial information of WSW, WSG and SHH.

3. Company financial statements

Balance sheet at 31 December 2019

(after appropriation of the result)

Assets	Note	31 December 2019		31 December 2018	
		€	€	€	€
<i>Fixed assets</i>	4.				
Intangible fixed assets					
Software		<u>1,398,805</u>		<u>948,890</u>	
			1,398,805		948,890
Tangible fixed assets					
Refurbishments		103,998		208,403	
Computer systems		190,781		144,726	
Office equipment		<u>68,301</u>		<u>72,020</u>	
			363,080		425,149
<i>Financial fixed assets</i>	5.				
Securities		525,724,858		528,549,924	
Deferred tax assets		<u>-</u>		<u>1,215,171</u>	
			525,724,858		529,765,095
<i>Current assets</i>					
Receivables	6.				
Guarantee fees receivable		4,386,609		4,313,595	
Corporation tax receivable		3,197,324		1,265,876	
Prepayments and accrued income		5,959,967		6,705,224	
Other receivables		<u>24,472</u>		<u>253,320</u>	
			13,568,372		12,538,015
Cash	7.		<u>4,209,908</u>		<u>9,176,520</u>
			<u>545,265,023</u>		<u>552,853,669</u>

Capital and liabilities		31 December 2019		31 December 2018	
		€	€	€	€
	Note				
Capital	8.				
Legal reserve		1,398,805		948,890	
Other reserve		<u>250,089,052</u>		<u>261,016,695</u>	
			251,487,857		261,965,585
Provisions	9.				
Provision for deferred tax		276,048		-	
Provision for guarantee obligations		<u>291,125,402</u>		<u>287,956,621</u>	
			291,401,450		287,956,621
Current liabilities	10.				
Suppliers and trade creditors		715,501		944,910	
Other tax and social security contributions	11.	384,396		58,513	
Accruals and deferred income	12.	817,027		1,421,742	
Other payables	13.	<u>458,792</u>		<u>506,298</u>	
			<u>2,375,716</u>		<u>2,931,463</u>
			<u>545,265,023</u>		<u>552,853,669</u>

Statement of income and expenditure for 2019

		2019		2018	
	Note	€	€	€	€
Guarantee fees	15.1	17,306,440		17,146,589	
Resolution fees	15.2	<u>95,244</u>		<u>319,245</u>	
Total operating income			17,401,684		17,465,834
Salaries	16.	6,097,290		5,175,307	
Other employee benefits	17.	3,633,151		2,206,811	
Depreciation and amortisation	18.	490,520		443,140	
Other operating expenses	19.	<u>4,544,604</u>		<u>4,993,666</u>	
Total operating expenses			(14,765,565)		(12,818,924)
Movement in provision for guarantee obligations	20.		<u>(21,263,772)</u>		<u>(12,124,290)</u>
Operating loss			(18,627,654)		(7,477,380)
Realised and unrealised gains and losses on investments	21.		378,048		(8,283,330)
Financial income and expenses	22.		11,307,881		12,098,372
Result before tax			(6,941,725)		(3,662,338)
Corporation tax	23.		<u>(3,536,003)</u>		<u>(1,958,486)</u>
Result after tax			<u>(10,477,728)</u>		<u>(5,620,824)</u>

Cash flow statement for 2019
Cash flow from operating activities

	Note	<u>2019</u> €	<u>2018</u> €
Result after tax		(10,477,728)	(5,620,824)
Adjustments for:			
Depreciation and amortisation	4.	490,520	443,140
Realised and unrealised gains and losses on investments	21.	(378,048)	8,283,330
Movement in provisions	9.1	21,263,772	12,124,290
Withdrawals from provisions	9.1	(18,094,992)	(637,869)
Corporation tax paid	9.2	(3,976,232)	(4,205,398)
Movements in working capital:			
Movements in receivables		4,437,094	2,376,584
Movements in current liabilities		(555,747)	582,920
<i>Cash flow from operating activities</i>		<i>(7,291,360)</i>	<i>13,346,173</i>
Cash flow from investment activities			
Additions to tangible and intangible fixed assets	4.	(882,617)	(431,802)
Disposals of tangible fixed assets	4.	4,251	-
Purchases of securities	5.	(72,359,148)	(81,087,757)
Sales of securities and redemptions	5.	75,562,262	69,115,602
<i>Cash flow from investment activities</i>		<i>2,324,748</i>	<i>(12,403,957)</i>
Movements in cash		(4,966,612)	942,216
Closing cash balance	7.	4,209,908	9,176,520
Opening cash balance	7.	9,176,520	8,234,304
Movements in cash		(4,966,612)	942,216

Notes to the balance sheet and statement of income and expenditure

1. General notes

1.1. Activities

The activities of Stichting Waarborgfonds Sociale Woningbouw (WSW), with its registered offices in Hilversum, consist primarily of guaranteeing loans to housing associations to fund projects for social housing and other properties with a social function. WSW is a not-for-profit foundation under Dutch law with an independent management structure, recorded in the Trade Register under number 41180946. WSW is subject to the supervision of the Dutch Authority for Housing Associations.

In 2018 WSW was for the first time faced with guarantee claims, from Stichting Humanitas Huisvesting (SHH) and Woningstichting Geertruidenberg (WSG). Arrangements were subsequently made on payment of interest and repayments under the guarantee and maintaining these associations. The arrangements set out in implementation agreements with WSG and SHH mean that WSW has influence over their policy and, according to the accounting standards, has to consolidate them from the date of the separation in 2019. Tripartite agreements have also been entered into with financial institutions for selected resolved residual loans. WSG and SHH have transferred their social housing activities to other housing associations and their only remaining activity is to continue in existence to settle the residual loans. WSG and SHH have not transferred the residual loans to WSW and so the obligations under the guarantee have, as in earlier years, been recognised in the provision for guarantee obligations. Payments for interest and repayment obligations by WSG and SHH direct to the investors still have to be regarded as payments under the guarantee and not under the loan as such. See note 9.1 Provision for guarantee obligations for further information.

1.2. Address

WSW's offices are situated at Marathon 6, 1213 PK Hilversum.

1.3. Related parties

The members of the Executive Board and other key managers of WSW, WSG and SHH and their close relatives are regarded as related parties.

Material transactions with related parties not conducted on normal market terms are disclosed, including details of the nature and size of the transaction and any other information that may be necessary to provide a fair view. There were no transactions with related parties during the reporting period that were not conducted on normal market terms.

1.4. Notes to the cash flow statement

WSW prepares the cash flow statement using the indirect method.

Income and expenditure relating to interest, dividends received and tax on profits are included in the cash flow from operating activities. Transactions that do not involve any inflow or outflow of cash are not included in the cash flow statement.

1.5. Correction of error

The 2019 financial statements correct a material error in the provision for guarantee obligations that was caused by the processing of an incorrect repayment schedule for one of WSG's residual loans. This loan was incorrectly treated as one where the residual debt would be repaid in full at the end of the term while in fact there is straight-line repayment from 1 January 2019 until the end of the term. As a result of this error, the other reserve at 31 December 2018 and the result after tax for 2018 were overstated by €13,450,990. The effect on the related items in the financial statements was as follows:

	Before correction	After correction	Difference
Provision for guarantee obligations at 31 December 2018	274,505,631	287,956,621	13,450,990
Addition/release/discounting: 2018 provision for guarantee obligations	1,326,700	(12,124,290)	(13,450,990)
Release from WSG's 2018 provision for guarantee obligations	(15,304,005)	(1,853,015)	13,450,990
Other reserve at 31 December 2018	274,467,685	261,016,695	(13,450,990)
Operating profit at 31 December 2018	5,973,610	(7,477,380)	(13,450,990)
Result before tax at 31 December 2018	9,788,652	(3,662,338)	(13,450,990)
Result after tax at 31 December 2018	7,830,166	(5,620,824)	(13,450,990)
Amount not recognised in WSG's 2018 provision in "14.6 Appeal proceedings against the State"	117,922,006	101,114,476	(16,807,529)

The comparative figures in the balance sheet and the statement of income and expenditure for 2018 have been restated for these corrections.

1.6. Estimates and assumptions

When applying the accounting policies and rules for preparing the financial statements, the Executive Board has to form an opinion on various matters and make estimates that may be essential for the amounts presented in the financial statements. The Executive Board makes these estimates and assumptions based on the prevailing circumstances and information available when the financial statements are prepared. Estimates based on events after the reporting period (or the non-occurrence of expected events) may be subject to future market movements and circumstances that are beyond WSW's control. Changes in estimates are recorded prospectively in the financial statements. Where required in order to provide the view required by Section 362(1) of Book 2 of the Dutch Civil Code, information on the nature of these opinions and estimates, including the underlying assumptions, is disclosed in the notes on the item in question. The principal estimates relate to the provision for guarantee obligations, deferred tax receivables and liabilities and taxes. The principal elements in the estimates on the provision for guarantee obligations relate to expected cash flows, the length of appeal proceedings and the cost of maintaining WSG and SHH.

2. Accounting policies for measuring assets and liabilities

2.1. General

WSW prepares its financial statements in accordance with the statutory provisions of Part 9 of Book 2 of the Dutch Civil Code and Dutch Accounting Standards issued by the Dutch Accounting Standards Board. The financial statements have been prepared on a going-concern basis and are stated in euros, being WSW's functional and presentation currency.

References to the relevant notes are included in the balance sheet, the statement of income and expenditure and the cash flow statement.

2.2. Netting

Assets and loan capital items are only netted in the financial statements if and insofar as:

- a sound legal instrument is available for simultaneously settling the asset and loan capital item; and
- there is a definite intention to settle the balance or both items simultaneously.

2.3. Financial instruments

Financial instruments are receivables, securities and liabilities. All financial assets bought and sold in accordance with standard market conventions are recognised at the transaction date, i.e. the date on which WSW enters into the binding agreement. See the relevant balance sheet item for information on the policies on financial instruments.

2.3.1 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If a reliable fair value cannot be attributed directly to the financial instruments, the fair value is approximated by deriving it from the fair value of its components or a similar instrument or with the assistance of generally accepted valuation models and measurement techniques. This is done using recent similar arm's length transactions, the DCF method (present value of cash flows) and/or option valuation models, reflecting specific circumstances.

2.3.2 Hedge accounting

WSW does not use hedge accounting.

2.4. Intangible fixed assets

An intangible fixed asset is capitalised if:

- WSW is likely to profit from the future economic benefits inherent in the asset; and
- the cost of the asset can be estimated reliably.

Expenses incurred for an intangible fixed asset that do not satisfy the conditions for capitalisation (for example, expenditure on research, publishing rights and customer databases) are recognised directly in the statement of income and expenditure. Intangible fixed assets are valued at cost less cumulative amortisation and cumulative impairment, if applicable.

Intangible fixed assets are systematically amortised on the basis of their estimated useful life, with a maximum of five years. The useful life and method of amortisation are reviewed at the end of each financial year. A legal reserve is maintained for the assets' carrying amount.

2.5. Tangible fixed assets

Tangible fixed assets are recognised at cost less cumulative depreciation based on the asset's expected useful life and cumulative impairment, if applicable.

On each reporting date, WSW assesses whether there are any indications of impairment. If so, an impairment test is performed. If the carrying amount of a tangible fixed asset is permanently higher than its realisable value, the carrying amount is immediately reduced to the realisable value. Assets no longer in use are stated at the lower of carrying amount and net realisable value.

2.6. Financial fixed assets

2.6.1 Related legal entities

After the implementation agreements took effect, WSW acquired effective influence over policy at WSG and SHH. As there has been influence over policy under the accounting regulations since 2019, WSG and SHH are being consolidated and consolidated financial statements are being prepared from the 2019 reporting period. The provision for guarantee obligations in WSW's financial statements incorporates the rights and obligations arising from the agreements, using the accounting policies for measurement set out there.

2.6.2. Securities

The securities included in financial fixed assets form part of the investment portfolio and are initially recognised at fair value. They are subsequently measured at fair value without deduction of any transaction costs on disposal. Realised and unrealised gains and losses are taken directly to the statement of income and expenditure as capital gains or losses on investments. Interest income is recognised in the period to which it relates.

Transaction costs attributable to securities subsequently measured at fair value fair value through profit or loss are recognised directly through the statement of income and expenditure.

2.6.3. Deferred tax assets

See note 3.7 ('Tax') for information on the measurement and recognition of deferred tax assets.

2.7. Receivables

Receivables are initially recognised at fair value plus transaction costs and subsequently at amortised cost net of any provision for doubtful debts. Other receivables and prepayments and accrued income relate to amounts paid in advance and are recognised at nominal value.

2.8. Cash

Cash comprises cash at bank and in hand plus call deposits with maturities of less than one year. Bank overdrafts are included with amounts owed to credit institutions in current liabilities. Cash items are stated at nominal value.

2.9. Capital

Capital comprises a legal reserve and the Other reserve. The legal reserve is formed to cover the capitalised cost of developed software. The Other reserve is formed by appropriations from the result and is intended to cover possible future claims from third parties under the terms of loan guarantees issued by WSW.

2.10. Provisions

Provisions are formed for legal or constructive obligations on the reporting date which are the result of a past event, which will probably require an outflow of resources, and whose amount can be reliably estimated. The amount of the provision is determined from the best estimate of the expenditure required to settle the obligation and losses at the reporting date. Unless stated otherwise, provisions are measured at present value using a discount rate of the pre-tax European swap interest rate at 31 December 2019 (2018: European swap rate at 31 December 2018) that reflects current market interest rates.

Provision for guarantee obligations

WSW has recognised a provision for guarantee obligations to cover the actual claims under the guarantee, taking account of the amount, settlement date and ongoing legal proceedings.

Guarantee claims can be made in the following default situations:

- a guarantee claim based on a loan agreement;
- bankruptcy or application for suspension of payments by the association or a third party;
- a sufficiently poor financial situation that account has to be taken of a guarantee claim.

2.11. Provision for deferred tax liabilities

See note 3.7 ('Tax') for information on the measurement and recognition of deferred tax liabilities.

2.12. Current liabilities

Current liabilities are recognised at fair value on initial recognition and subsequently at amortised cost using the effective interest method.

2.13. Derecognition of financial assets and liabilities

A financial instrument is derecognised if a transaction leads to the transfer to a third party of all, or substantially all, the rights to the economic benefits and all, or virtually all, the risks pertaining to the position.

2.14. Leases

WSW may have leases which do not transfer substantially all the risks and rewards incidental to ownership.

These leases are recognised as operating leases and the lease payments are recognised through the statement of income and expenditure on a straight-line basis over the lease term.

3. Accounting policies for determining the result

3.1. Income

Total operating income is revenue from the provision of services net of discounts and taxes charged on turnover.

3.2. Recognition of income

3.2.1. Provision of services

If the result of a transaction for the provision of a service can be reliably estimated and receipt of revenue is probable, the revenue from the provision of that service is recognised in proportion to the degree to which the service has been provided. The degree to which the service has been provided is based on the cost of providing the service at the reporting date compared with the total estimated cost of the service to be provided.

3.2.2. Income from guarantee fees

WSW charges a quarterly guarantee fee on the current value of outstanding loans contracted after 30 June 2007. This fee, which participants pay when they raise a guaranteed loan, covers the operating expenses and includes a credit risk surcharge. These guarantee fees are calculated using a system of differentiated premiums aligned with the risk assessment model. Participants are grouped into four different fee categories according to their risk profile as determined on 31 December of the previous year and these apply for the whole of the calendar year.

In the case of guarantee contracts signed before 1 July 2007, participants were required to pay a one-off discount when they signed the contract. In the past, the entire discount revenue was recognised as income on the payment date.

3.2.3 Resolution costs

The costs WSW incurs for resolution operations are charged annually to the Ministry of the Interior and Kingdom Relations. The resolution costs are a proportion of WSW's operating expenses, allocated in accordance with the staff resources deployed on resolution, plus the cost of legal and advisory services provided in relation to resolution.

3.3. Expenses

Expenses are determined subject to the measurement policies set out above and are recognised in the reporting period to which they apply. Foreseeable liabilities and potential losses originating before the end of the reporting period are recognised if they become known before the financial statements are prepared and if the conditions for forming provisions are satisfied.

3.4. Employee benefits

3.4.1. Periodic remuneration

Wages, salaries and social security charges, based on the employment terms and conditions, are recognised in the statement of income and expenditure insofar as they are payable.

3.4.2. Pensions

All WSW staff are members of a defined-benefit pension scheme. Each year, qualifying members of staff accrue pension entitlements on their salary for that year (an average salary scheme). WSW's pension scheme is administered by Stichting Pensioenfonds voor de Woningcorporaties (SPW). The pension

liabilities arising from this are measured using the liability to the pension administrator approach, under which the premiums payable to the pension administrator are recognised as a charge in the statement of income and expenditure. Premiums payable or prepaid at the reporting date are recognised as accruals or prepayments respectively.

A pension receivable from surpluses at the pension administrator is recognised if WSW has control of the surplus, it is probable that WSW will receive economic benefits in the future and that they can be reliably estimated.

The pension entitlements are indexed annually, if and to the extent that the pension fund's funding ratio (its assets divided by its financial liabilities) permits. SPW submitted a recovery plan to the regulator in June 2015 which showed that it could extinguish the deficit on its reserves within the set period. WSW has no obligation to make supplementary contributions in the event of a deficit at SPW other than the effect of higher future premiums.

Dutch pension schemes are subject to the provisions of the Pensions Act (*Pensioenwet*) and WSW pays mandatory, contractual or voluntary basic premiums to pension funds and insurance companies.

3.5. Amortisation and depreciation

Depreciation and amortisation of tangible and intangible fixed assets starts on the date they are first used and is based on the estimated future useful life of the asset. If there is a change in the estimated future useful life, the depreciation charge is adjusted accordingly. Book profits and losses on the sale of tangible and intangible fixed assets are recognised as other income.

3.6. Realised and unrealised gains and losses on investments

Gains and losses on investments are based on market prices and are recognised directly in the statement of income and expenditure. Interest income is recognised on a proportionate basis, based on the effective interest rate.

3.7. Tax

3.7.1. Current taxes

Tax on profits is calculated on the result before tax as shown in the statement of income and expenditure based on the prevailing tax rate, taking account of tax-exempt items and deductible or restricted costs.

3.7.2. Deferred taxation

Deferred tax is recognised for temporary differences between values for commercial and tax purposes. Deferred tax assets and liabilities are stated at nominal value based on the prevailing tax rate. They are netted if there is an enforceable right to offset current tax assets against current tax liabilities.

4. Fixed assets

4.1 Intangible fixed assets

Movements in intangible fixed assets:	<u>Software 2019</u>	<u>Software 2018</u>
	€	€
Balance at 1 January		
Purchase price	4,868,646	4,503,260
Cumulative amortisation and impairment	<u>(3,919,756)</u>	<u>(3,654,711)</u>
Carrying amount	<u>948,890</u>	<u>848,549</u>
Movements during the reporting period		
Additions/assets under development	734,090	365,386
Reclassification of computer systems to software	10,285	-

Retirements of software	(2,499,360)	-
Cumulative amortisation on retirements of software	2,499,360	-
Amortisation of intangible fixed assets	<u>(294,460)</u>	<u>(265,045)</u>
Balance	449,915	100,341

Balance at 31 December

Purchase price	3,113,661	4,868,646
Cumulative amortisation and impairment	<u>(1,714,856)</u>	<u>(3,919,756)</u>
Carrying amount	<u>1,398,805</u>	<u>948,890</u>

Amortisation rates	<u>20%</u>	<u>20%</u>
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Intangible fixed assets consist of software used on WSW's computer systems. In 2018, the costs of a major IT project were recognised as Assets under development. This software was taken into use in 2019. Fully amortised software of €2,499,360 was retired in 2019.

4.2 Tangible fixed assets

Movements in tangible fixed assets:

	Refurbishments	Computer systems	Office equipment	Total
	€	€	€	€
Balance at 1 January 2019				
Purchase price	1,044,053	253,001	532,570	1,829,624
Cumulative depreciation and impairment	<u>(835,650)</u>	<u>(108,275)</u>	<u>(460,550)</u>	<u>(1,404,475)</u>
Carrying amount	<u>208,403</u>	<u>144,726</u>	<u>72,020</u>	<u>425,149</u>
Movements during the reporting period				
Additions	-	122,434	26,094	148,527
Reclassification of computer systems to software		(10,285)		(10,285)
Disposals: reduction of cost		(5,544)		(5,544)
Disposals: reduction of cumulative depreciation		1,294		1,294
Depreciation	<u>(104,405)</u>	<u>(61,843)</u>	<u>(29,812)</u>	<u>(196,060)</u>
Balance	(104,405)	(46,055)	(3,718)	(62,068)
Balance at 31 December 2019				
Purchase price	1,044,053	359,606	558,664	1,962,322
Cumulative depreciation and impairment	<u>(940,055)</u>	<u>(168,824)</u>	<u>(490,362)</u>	<u>(1,599,242)</u>
Carrying amount	<u>103,998</u>	<u>190,781</u>	<u>68,302</u>	<u>363,081</u>
Depreciation rates	<u>10%</u>	<u>20%</u>	<u>20%</u>	

Refurbishments are alterations to the premises at Marathon 6 in Hilversum. Computer systems consist largely of hardware. Office equipment consists mainly of office furniture and similar items.

Movements in tangible fixed assets in 2018:

Refurbishments	Computer systems	Office equipment	Total
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	€	€	€	€
Balance at 1 January 2018				
Purchase price	1,044,053	216,716	502,538	1,763,307
Cumulative depreciation and impairment	<u>(731,244)</u>	<u>(64,071)</u>	<u>(431,066)</u>	<u>(1,226,381)</u>
Carrying amount	<u>312,809</u>	<u>152,645</u>	<u>71,472</u>	<u>536,926</u>
Movements in 2018				
Additions	-	36,285	30,032	66,317
Depreciation	<u>(104,406)</u>	<u>(44,204)</u>	<u>(29,484)</u>	<u>(178,094)</u>
Balance	(104,406)	(7,919)	548	(111,777)
Balance at 31 December 2018				
Purchase price	1,044,053	253,001	532,570	1,829,624
Cumulative depreciation and impairment	<u>(835,650)</u>	<u>(108,275)</u>	<u>(460,550)</u>	<u>(1,404,475)</u>
Carrying amount	<u>208,403</u>	<u>144,726</u>	<u>72,020</u>	<u>425,149</u>
Depreciation rates	<u>10%</u>	<u>20%</u>	<u>20%</u>	

5. Financial fixed assets

5.1. Securities

Movements in securities:

	2019	2018
	€	€
Balance at 1 January		
	528,549,824	524,861,001
Unrealised price gains and losses in the reporting period	5,964,777	(3,820,040)
Purchases of securities	72,359,148	81,087,757
Sales and redemptions of securities	<u>(81,148,891)</u>	<u>(73,578,894)</u>
Balance at 31 December	<u>525,724,858</u>	<u>528,549,824</u>

The purchase price of listed securities at 31 December 2019 was €524,620,664 (2018: €533,410,506).

There was a positive result on the investment portfolio in 2019 of €11,685,929, consisting of net realised and unrealised capital gains and losses on investments and interest income (2018: €3,815,042 positive). Unrealised gains and losses and interest income exceeded the realised loss on sales. Sales and redemptions of securities generated a loss of €5,586,729 (2018: €4,463,292 loss) since lower values were achieved because of current lower interest rates on securities with long maturities.

The objective of the investment portfolio is to maintain WSW's capital, taking account of inflation. WSW is the legal and beneficial owner of the securities, which are managed by InsingerGilissen Bankiers N.V. The custodian of the securities is Quintet Private Bank (Europe) S.A. (formerly KBL European Private Bankers). All securities are available to WSW on demand. The investment portfolio forms part of the risk capital and can be used in the event of a guarantee claim. WSW has a credit facility with the custodian, ensuring access to cash at very short notice if the portfolio cannot be immediately liquidated.

The external asset manager manages the investment portfolio in accordance with a passive investment mandate relative to a market-weighted benchmark. In accordance with its investment policy, WSW invests exclusively in euro-denominated bonds. The maximum holding per issuer is 10%, except for the sovereign debt of euro area countries. Fixed-income securities with an A rating may not constitute more than 10% of the portfolio. If this percentage is exceeded as the result of a downgrade, the portfolio is rebalanced so that the limit is no longer exceeded.

The securities portfolio at 31 December 2019:

Composition by rating based on fair value of the investments (excluding accrued interest):

(x €1000)

Rating	Fair value 2019	% distribution	Fair value	% distribution
		2019	2018	2018
AAA	302,555	57.55	232,721	44.03
AA	223,170	42.45	295,829	55.97
Total	525,725	100.00	528,550	100.00

Portfolio performance is assessed by the extent to which it is able to keep pace with inflation. If the portfolio fails to keep pace with inflation over a number of years, or where this is necessitated by global developments, the benchmark (and hence also the investment objective) is reviewed. The investment portfolio achieved a gain (including interest income) of 2.14% (2018: 0.69%) in 2019. Inflation in 2019 was 2.72% (2018: 1.98%). The benchmark's performance during the same period was 2.18% (2018: 0.72%).

The duration of the portfolio as a measure of interest-rate sensitivity at 31 December 2019 was 5.36 years (2018: 5.24 years). As an indication of interest-rate sensitivity: the market value of the investments at 31 December 2019 would change by some €28.2 million if the interest rates fluctuate by 1 percentage point.

The table below shows the portfolio's composition by maturity in 2019 and 2018. There was no significant change in the composition by maturity relative to 2018.

Composition by maturity of the investments in 2019:

Maturity (years)	% distribution	% distribution	Difference between
	2019	2018	2019 and 2018 (percentage points)
0-3 years	24.99	25.81	-0.82
3-5 years	21.25	22.73	-1.48
5-7 years	22.45	19.15	3.30
7-10 years	17.56	19.90	-2.34
10 or more	13.75	12.42	1.33

5.2 Deferred tax assets

A deferred tax asset (€1.2 million) was recognised for temporary differences between values for commercial and tax purposes in 2018. In 2019 the deferred tax asset became a deferred tax liability for which a provision has been formed. See note 9.2.

6. Receivables

All receivables have a remaining maturity of less than one year. Given their short-term nature, the fair value of receivables approximates the carrying amount.

6.1 Guarantee fees receivable

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Guarantee fees	4,386,609	4,313,595
	<u>4,386,609</u>	<u>4,313,595</u>

All guarantee fees receivable have a maturity of less than 30 days. No provision for doubtful debts is deemed necessary.

6.2. Corporation tax receivable

Corporation tax	3,197,324	1,265,876
	<u>3,197,324</u>	<u>1,265,876</u>

Corporation tax receivable relates to advance payments of corporation tax for 2019 and 2018. The current tax charges for 2019 and 2018 are €2,044,784 and €2,939,523 respectively. The advance corporation tax charge was set too high as it was based on higher levels of taxable income in previous years. All corporation taxes in respect of years before 2018 have been paid. Corporation taxes up to and including 2016 have been finalised.

6.3. Prepayments and accrued income

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Accrued interest	5,661,617	6,491,481
Prepaid other costs	<u>298,350</u>	<u>213,743</u>
	<u>5,959,967</u>	<u>6,705,224</u>

Accrued interest income relates to interest earned on the investment portfolio.

6.4. Other receivables

Amounts recharged to third parties	-	229,273
Other receivables	<u>24,472</u>	<u>24,04</u>
	<u>24,472</u>	<u>253,32</u>

There were no further amounts recharged to third parties at 31 December 2019. In 2018, this related to a recharge of costs for a joint activity by WSW and Dutch Authority for Housing Associations.

7. Cash

Bank	4,209,908	9,175,258
Cash in hand	-	<u>1,261</u>
	<u>4,209,908</u>	<u>9,176,519</u>

The cash is at the free disposal of WSW. WSW has a bank facility of up to €433.5 million under which cash amounting to 95% of the market value of the investment portfolio is made immediately available in the event of a claim. WSW has not drawn on this facility in 2019 or previous years.

8. Capital

Capital consists of the legal reserve and the Other reserve. The company capital differs from the consolidated capital. See note 30.5.3 for information on the consolidated capital.

8.1. Legal reserve

	€
Balance at 1 January 2019	948,890
Supplement from the result	<u>449,915</u>
Balance at 31 December 2019	1,398,805

The legal reserve covers the cost of software developed and is supplemented from the proposed appropriation of the result.

8.2. Other reserve

	€
Balance at 1 January 2019	274,467,685
Correction of error	(13,450,990)
New balance at 1 January 2019	261,016,695
Appropriation of result	<u>(10,927,643)</u>
Balance at 31 December 2019	250,089,052

The Other reserve is formed by appropriations from the balance of income and expenditure and is intended to cover future claims under the guarantee. See note 1.5 for further information on the correction of error.

8.3. Proposal for appropriation of the result

It is proposed to appropriate the balance of income and expenditure by transferring €0.4 million to the legal reserve and €10.9 million from the Other reserve. This proposal has been incorporated in the financial statements.

9 Provisions

	<u>31 December</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
	€	€
Provision for guarantee obligations	291,125,402	287,956,621
Provision for deferred tax	276,048	-
	<u>291,401,450</u>	<u>287,956,621</u>

9.1 Provision for guarantee obligations

The financial statements include a provision for expenditure resulting from WSW's role as a guarantor. These comprise liabilities WSW has taken over on loans of Stichting Humanitas Huisvesting (SHH) and Woningstichting Geertruidenberg (WSG) to the extent that they cannot meet them. The total nominal value of these liabilities is €444 million, being €146 million for SHH and €298 million for WSG. The provision is based on the best estimate of the amounts required to settle the guarantee obligations at the reporting date. These comprise the loan servicing payments (redemptions and interest) on the loan portfolios of WSG and SHH and legal fees for the next three years less the expected outcome of the administrative-law proceedings against BZK.

The provision is measured at the present value of the expected cash flows. WSW uses the European swap rate at 31 December 2019 for this. This led in 2019 to an addition to the provision for guarantee obligations of €32.3 million as a result of discounting (2018: €1.6 million).

	2019			2018		
	€			€		
	WSG	SHH	Total	WSG	SHH	Total
Balance at 1 Jan	146,744,126	127,761,505	274,505,631	162,686,000	113,784,200	276,470,200
Error correction	13,450,990	-	13,450,990	-	-	-
New balance at 1 Jan	160,195,116	127,761,505	287,956,621	162,686,000	113,784,200	276,470,200
Withdrawals	(15,878,750)	(2,216,241)	(18,094,991)	(637,869)	-	(637,869)

Addition/release	139,150	(11,158,255)	(11,019,105)	(3,469,160)	13,977,305	10,508,145
Discounting	14,655,752	17,627,125	32,282,877	1,616,145	-	1,616,145
Balance at 31 Dec	159,111,268	132,014,134	291,125,402	160,195,116	127,761,505	287,956,621

The ongoing appeal proceedings against the State with respect to the level of the resolution grant are taken into account when determining the expected cash flows for loan servicing payments for the provision. WSG, SHH and WSW have all instituted appeals against the resolution decisions as a whole. The provision only recognises the part of the claim that addresses the percentage of ‘non-vital activities in the general economic interest’. WSW believes WSG has received too little resolution grant as the State has applied too low a percentage (55%) for ‘non-vital activities in the general economic interest’ compared with the actual ‘non-vital activities in the general economic interest’ (76%). WSW has objected to this and lodged an appeal against the State. WSW expects a conclusion to the administrative-law proceedings within three years. If WSW’s appeal fails, a further provision of €116.5 million based on market values (2018: €101.1 million) will be required. See note 14.6 Appeal proceedings against the State for the status of the ongoing proceedings not recognised on the balance sheet.

The withdrawals in 2019 were for contractual payments of interest and redemptions. The release of €11.2 million for SHH in 2019 is a consequence of fixing interest review dates and removing embedded derivatives from the loan contracts for which conservative estimates were made in 2018 and some alterations as a result of the implementation agreements entered into with WSG and SHH. The addition of €0.1 million for WSG in 2019 was a result of fixing the interest on one base loan.

As explained in note 1.5, a correction was made to the provision for WSG as a result of a revision in the redemption schedule which was not processed in 2018. This correction of €13.5 million has been recognised as a correction of an error in 2018. The comparative figures have been restated accordingly.

The interest and redemptions (present value) that WSW will pay under the guarantee claims in the next few years are:

	WSG	SHH	Total
< 1 year	17,260,369	2,348,433	19,608,802
1-5 years	46,899,183	11,746,368	58,645,551
> 5 years	94,951,716	117,919,333	212,871,049
Total	159,111,268	132,014,134	291,125,402

The duration of the interest and redemptions as a measure of interest-rate sensitivity at 31 December 2019 was 17.10 years. As an indication of interest-rate sensitivity: the market value of these future payments (€394.0 million at 31 December 2019) would rise by some €70.7 million if interest rates fall by 1 percentage point and would fall by €55.1 million if interest rates rise by 1 percentage point.

9.2 Provision for deferred tax

A provision for deferred tax is recognised for temporary differences between values for commercial and tax purposes.

	<u>2019</u>	<u>2018</u>
	€	€
Provision for deferred tax		
Balance at 1 January	(1,215,171)	(260,162)
Movements in provision for deferred tax	<u>1,491,219</u>	<u>(955,009)</u>
Balance at 31 December	276,048	(1,215,171)

The deferred tax provision was formed to account for differences between the value of the securities in the

financial statements and the valuation principles applied by the tax authorities. At 31 December 2019 the market value of the securities had increased above the purchase price creating a deferred tax liability. Consequently, the deferred tax asset at 31 December 2018 has become a deferred tax liability and a provision for deferred tax has been formed.

10. Current liabilities

All current liabilities have a remaining maturity of less than one year. Due to their short-term nature, the fair value approximates the carrying amount.

11. Other tax and social security contributions

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Value added tax	34,881	61,877
Payroll taxes	<u>349,515</u>	<u>(3,364)</u>
	384,396	58,513

The current value added tax liability consists mainly of the tax due for services provided by foreign organisations during the fourth quarter of 2019.

The current payroll taxes liability consists mainly of additional payroll tax assessments for the period 2014-2018 following an audit by the Tax and Customs Administration.

12. Accruals and deferred income

Accrued paid leave entitlements	177,285	151,615
Reserve for individual career budgets	118,123	99,737
Advance payments for SBR-wonen	<u>521,619</u>	<u>1,170,390</u>
	817,027	1,421,742

Advance payments for SBR-wonen

Until November 2019, WSW kept the accounts of SBR-wonen. SBR-wonen is responsible for implementing the ‘covenant on improving information disclosure among housing associations. WSW is a party to the agreement along with Aedes (the federation of Dutch housing associations), the Ministry of the Interior and Kingdom Relations and the Dutch Authority for Housing Associations. The advance payments for SBR-wonen consist of the difference between the operating expenses of SBR-wonen’s supply chain team and the advances received from the parties to the agreement. The Dutch Authority for Housing Associations has been keeping the accounts of SBR-wonen since mid-November 2019.

13. Other payables

Commuting allowances payable	62,393	60,234
Investment portfolio management fees payable	48,743	63,942
Expenses payable	<u>347,656</u>	<u>382,122</u>
	458,792	506,298

14. Off-balance sheet assets and liabilities

14.1. Financial commitments

Operating leases:

Rent of €0.2 million per year is payable in respect of the office premises and parking spaces. Of the total amount shown, €0.2 million is payable after more than one year. The rental contract expires on 31

December 2021.

Operating lease liabilities relating to the vehicle fleet totalled €415,447 at year-end as follows:

Amounts payable:	€
Within 1 year	71,786
Between 1 and 5 years	343,661
After 5 years	-

At 31 December 2019, there were no operating lease liabilities relating to computer and other equipment.

14.2. Claims under guarantees

WSW guarantees to service participants' loans covered by guarantee clauses in loan agreements, thus providing assurance to those lending to participants that the obligations under a guaranteed loan agreement will be met promptly and in full. The total value of the loans guaranteed by WSW at year-end 2019 was €80.0 billion (2018: €79.8 billion). Of this, €0.4 billion related to deferred payments confirmed by WSW in 2019.

WSW's security structure enables it to guarantee the servicing of these loans. It is made up of three elements: the risk capital, the participants' committed capital and the backstop agreements made with the government and local authorities.

The primary purpose of the risk capital is to meet guarantee claims. It amounted to €526.5 million at 31 December 2019 (2018: €534.8 million) as follows:

<i>(in € million)</i>	<u>31 December 2019</u>	<u>31 December 2018</u>
Investments at the lower of purchase price or market value	524.6	528.5
Cash	4.2	9.2
Liabilities comprising payables, accruals and deferred income and debt excluding provisions for guarantee obligations	(2.4)	(2.9)
Risk capital	526.5	534.8

WSW will call on the participants' committed capital if a guarantee claim is made such that the risk capital falls below the guaranteed debt level. The guaranteed debt level is 0.25% of total guaranteed volume (31 December 2019: €200.2 million). If guarantee claims, whether already submitted or impending, are likely to result in the risk capital falling below guaranteed residual debt after the committed capital has been called upon, use is then made of the backstop arrangements with the government and the local authorities so that WSW can at all times meet its obligations under the guarantee. WSW verifies each year that it has sufficient risk capital and to this end, also assesses whether the housing associations are indeed capable of supplying that proportion of the risk capital that they are obliged to supply on request. A deficit in the risk capital would be supplemented from capital committed by the participants. This was not required in 2019. A new assessment will be performed in 2020.

14.3. Guarantee facilities

WSW issues guarantees for new loans and the refinancing of existing guaranteed loans. WSW has no legal obligation to issue guarantees to participants.

14.4. Third-party indemnification action

Stichting Vestia initiated legal proceedings in 2013 against (i) a former employee of the Treasury department, (ii) two audit firms/former external auditors, and (iii) a bank. Vestia is holding all the above parties liable for losses it claims to have incurred.

In the action referred to above under (i), WSW received a letter that sought to suspend a period of limitation that may have been in force. The former employee asked the court to add WSW (and a number of other parties) as a party to the action. The court rejected the request but this does not prevent the former employee from instigating separate proceedings.

In one of the actions referred to above under (ii), WSW received a letter which sought to suspend any period of limitation that may have been in force. One of the audit firms/former external auditors also asked the court to add WSW (and a number of other parties) as a party to the action. The court granted this request, and WSW was served a summons as a party to the action.

In the action referred to above under (iii), WSW received a letter that sought to suspend any period of limitation that may have been in force.

WSW believes that there is very little likelihood of all or part of the liability in question being passed on to it.

14.5. Related parties: WSG and SHH

Under the implementation agreements with WSG and SHH, WSW has to meet normal interest and redemption obligations under the guarantee, costs for maintaining WSG and SHH and specific listed residual liabilities. Unknown other costs and liabilities not covered by arrangements in the agreements are not for the account and risk of WSW. WSW is not required to meet other liabilities and has not issued a declaration of joint and several liability pursuant to Section 403(1)(f), Part 9, Book 2 of the Dutch Civil Code for WSG and SHH.

14.6. Appeal proceedings against the State

The appeal proceedings against the resolution decisions by the State initiated by WSW, WSG and SHH two years ago are still ongoing. In January 2020, the appellants submitted a statement of defence to the court. The court hearing of the notices of appeal from WSG and SHH was provisionally planned for May 2020 to be followed by a ruling with the possibility of an appeal to the Council of State. Expectations on the progress and outcome of the appeals proceedings have not changed although the effect of the coronavirus pandemic on the proceedings cannot yet be estimated.

The court ruled on 9 April 2020 that in the first instance the appeal by WSW was unfounded. The court ruled that WSW was not an admissible party to either case. This ruling, which is open to appeal, has no consequences for the proceedings by WSG and SHH against the rejection of the resolution decisions. These are separate cases on which WSW has made contractual arrangements with WSG and SHH with respect to the way they conduct these appeals. That WSW was not an admissible party to the appeals is a scenario that had been anticipated and has no impact on the assessment of the proceedings as incorporated in the provision.

A positive outcome is expected and in that scenario the amounts provided for overpaid expenses in the years to 2022 will be recovered. If there is an adverse outcome to the appeals proceedings, an extra provision of €116.5 million, based on market values, will need to be formed. The provision for guarantee obligations (note 9.1) reflects the appeals proceedings.

14.7. Events after the reporting date

Covid-19

Although the effects of the coronavirus crisis cannot yet be assessed, after examining its operations, measures taken to ensure critical processes and the structure of the guarantee system, WSW believes that as far as can be seen at the moment there is no uncertainty about its continuity. As WSW is continuing to guarantee loans, housing associations can access funding at the lowest possible cost. This assists housing associations to continue to do their work and serve tenants.

15. Income

15.1 Guarantee fees

	<u>2019</u>	<u>2018</u>
	€	€
Guarantee fees	<u>17,306,440</u>	<u>17,146,589</u>

The guarantee fees relate to the guarantee fee of €69 per €1 million of outstanding loans.

15.2 Resolution fees

Resolution fees	<u>95,244</u>	<u>319,245</u>
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Costs incurred to carry out resolution activities are charged to the resolution fund of the Ministry of the Interior and Kingdom Relations. In 2019 there were fewer resolution activities than in the previous year.

16. Salaries

Salaries

Gross wages and salaries	4,699,863	3,941,118
Social security charges	648,432	598,386
Pension charges	<u>748,995</u>	<u>635,803</u>
	<u>6,097,290</u>	<u>5,175,307</u>

Salaries increased in 2019 compared with 2018 as a result of regular negotiated pay rises and an increase in the workforce.

Pension charges

WSW has a pension administration agreement with SPW, the industry-wide pension fund for housing associations. The SPW pension scheme is an average salary scheme.

The pension scheme allows for conditional indexation. Depending on the pension fund's financial position, SPW's Board of Trustees decides on the size of any percentage increase each year. SPW's financial position did not permit any increase to be made in 2019.

WSW is required to form a provision if, under the administration agreement, there is a liability on the reporting date and if the adoption of a package of measures (required to restore the funding ratio on the reporting date) is likely to lead to an outflow of resources, the amount of which can be reliably estimated.

At year-end 2019, SPW had a funding ratio of 110.7% (year-end 2018: 115.9%) compared with a requirement of 125.3%, meaning that the fund still has a shortfall in its reserves. SPW is working on a new recovery plan and expects it can resolve the shortfall autonomously so that WSW will not have to make a contribution. Consequently, there is no need for WSW to form a provision at 31 December 2019.

17. Other employee benefits

	<u>2019</u>	<u>2018</u>
	€	€
Temporary staff employed via third parties	2,600,474	1,353,926
Other employee benefits	<u>1,032,677</u>	<u>852,885</u>
	<u>3,633,151</u>	<u>2,206,811</u>

The increase in temporary staff is a result of hiring in staff for IT projects and the strategic programme.

Other employee benefits included lease payments of €254,944 (2018: €252,420) for the car fleet and €46,786 (2018: €40,533) for computers and other equipment.

18. Depreciation and amortisation

Software	294,460	265,045
Refurbishments	104,405	104,406
Computer systems	61,843	44,205
Office equipment	<u>29,812</u>	<u>29,484</u>
	<u>490,520</u>	<u>443,140</u>

19. Other operating expenses

Cost of premises	343,098	360,956
General overheads	4,042,721	4,449,394
Cost of supervisory and advisory bodies	<u>158,784</u>	<u>183,316</u>
	<u>4,544,603</u>	<u>4,993,666</u>

19.1. Cost of premises

	<u>2019</u>	<u>2018</u>
	€	€
Rent	185,283	181,828
Cleaning	36,020	31,777
Gas, water and electricity	72,708	83,033
Insurance	14,937	15,512
Other costs relating to premises	<u>34,150</u>	<u>48,806</u>
	<u>343,098</u>	<u>360,956</u>

19.2. General overheads

IT	1,432,622	1,789,734
Consultants	788,738	685,193
Auditor	192,390	230,504
Investment expenses	429,494	456,471
Information and documentation	53,842	109,472
Rating agencies	108,960	101,177
Costs of retrieving data from participants	953,418	1,069,149
Other general expenses	<u>83,257</u>	<u>7,693</u>
	<u>4,042,721</u>	<u>4,449,393</u>

Consultants were legal, tax and other consultancy fees. Investment expenses consisted of fees paid for the external management of WSW’s investments. Costs of retrieving data from participants in 2019 comprised the contribution to the operating and development costs of SBR-women (see note 12). In 2018 this also included the operating costs of Copodata (software package for retrieving data).

19.2.1 Audit fee

Audit fees relate to ‘Auditor’ in 19.2. The following audit fees (incl. VAT) paid to Ernst & Young Accountants LLP were charged to the result during the reporting period:

	<u>2019</u>	<u>2018</u>
	€	€
Audit of the financial statements	192,390	230,504
Other audit work	-	-
Tax advice	-	-
Other non-audit work	-	-
Total	<u>192,390</u>	<u>230,504</u>

No audit fees from other accountancy firms were charged to the result. The above fees relate exclusively to the work performed for WSW by audit firms and independent external auditors as referred to in Section 1.1 of the Audit Firms Supervision Act. Costs are recognised in the reporting period to which they relate. A provision or deferred item is formed if part of the audit and audit-related work is performed after the end of the reporting period (i.e. in the next reporting period).

20. Movement in provision for guarantee obligations

	<u>2019</u>	<u>2018</u>
	€	€
Addition/release	11,019,105	(10,508,145)
Discounting	<u>(32,282,877)</u>	<u>(1,616,145)</u>
Movement in provision for guarantee obligations	<u>(21,263,772)</u>	<u>(12,124,290)</u>

The addition to the guarantee obligations is explained in note 9.1 Provision for guarantee obligations.

21. Realised and unrealised gains and losses on investments

Realised gains and losses on investments	(5,586,729)	(4,463,292)
Unrealised gains and losses on investments	<u>5,964,777</u>	<u>(3,820,038)</u>
	378,048	(8,283,330)

22. Financial income and expenses

Interest earned on the investment portfolio	<u>11,307,881</u>	<u>12,098,372</u>
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23. Corporation tax

	<u>2019</u>	<u>2018</u>
	€	€
Result from ordinary activities before tax	(6,941,725)	(3,662,338)
<i>Differences between annual figures as calculated for filing and tax purposes</i>		
<i>Temporary differences</i>		
Securities	(5,964,777)	3,820,038
Non-deductible legal fees	(156,481)	(500,000)
<i>Permanent differences</i>		
Movement in provision for guarantee obligations	21,263,772	12,124,290
Other permanent differences	18,347	16,100
Taxable result	8,219,137	11,798,090

Corporation tax due on the above figure:

20% on €200,000	40,000	40,000
25% on the remainder of the taxable result	2,004,784	2,899,522
	2,044,784	2,939,522
Prior-year adjustments to corporation tax	-	(26,027)
Movements in deferred tax	1,491,219	(955,009)
Corporation tax for the reporting period	3,536,003	1,958,486
<i>Effective tax rate</i>	<i>(50.94%)</i>	<i>(20.01%)</i>

The difference between the effective and nominal tax rates is mainly a result of unrealised gains and losses on securities and the addition to the provision for guarantee obligations being ignored for tax purposes.

Movements in deferred tax are the movements in temporary differences between the financial statements for commercial and tax purposes. Unrealised gains and losses on investments are not part of the result for tax purposes. When calculating the taxable result, legal and consultancy fees are not deducted from the provision for guarantee obligations for tax purposes but recognised in the taxable result for the reporting period.

24. Average number of staff

The average workforce (measured in full-time equivalents) in 2019 was 60.3 (2017: 57.8). WSW does not employ any staff outside the Netherlands.

	31 December 2019	Average 2019	Average 2018
Executive Board	2.0	2.0	1.8
Management support	13.9	14.3	15.2
Risk management	15.8	14.6	10.1
Account management including Special Accounts	16.6	17.4	17.4
Information management	6.9	6.9	7.1
Operations & Control	5.8	5.1	6.2
Total number of employees (FTE)	61.0	60.3	57.8

25.1 Executive Board remuneration

The total remuneration of the Executive Board of WSW in 2019, comprising gross salaries including holiday allowances and pay in lieu of holiday entitlement, was €387,457 (2018: €458,494). Pension costs for the Executive Board amounted to €45,738 in 2019 (2018: €39,121).

The remuneration payable to the members of the Supervisory Board, including VAT, amounted to €117,852 in 2019 (2018: €101,061). The remuneration of Supervisory Board members was raised by 3.74% in 2019 in line with the current limit in the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act. The statement of remuneration components required under the Act is as follows:

Remuneration of senior officials

In €	R. Röttscheid MFE	R. Röttscheid MFE	L.J. van Kalsbeek	L.J. van Kalsbeek
Position	Executive Board member	Executive Board member	Executive Board member	Executive Board member
Year	2019	2018	2019	2018
Period of employment in 2019	1 Jan – 31 Dec	1 Feb – 31 Dec	1 Jan – 31 Dec	17 Apr – 31 Dec
Workload (in FTEs)	1.0	1.0	1.0	1.0
Employed	Yes	Yes	Yes	Yes
Remuneration (in €)				

Remuneration plus taxable expense allowances	170,613	151,254	171,106	109,354
Future payments	22,872	20,163	22,866	15,233
Total remuneration	193,485	171,417	193,973	124,586
Individual remuneration limit	194,000	172,948	194,000	134,112

No undue amounts were paid.

Supervisory Board

The maximum remuneration payable to members of the Supervisory Board in 2019 under the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act is 15% of the maximum amount for 2019 for the chair, and 10% of the maximum amount for 2019 for the other Supervisory Board members under the Act. The remuneration of these senior officials does not exceed the maximum set in the Act. There was a change in the composition, period of employment and remuneration of the members of the Supervisory Board in 2019 as compared with 2018. Prof. D. Brounen joined the board.

	H.M. Meijdam	G. van Vollenhoven AAG	J.E.M. Tijhuis	J.G. Pot	Prof. D. Brounen
Position(s)	Chair	Member	Member	Member	Member
Period of employment in 2019	1 Jan - 31 Dec	1 Jan - 31 Dec	1 Jan – 31 Dec	1 Jan - 31 Dec	25 Jun - 31 Dec
Remuneration (in €)					
Remuneration	29,100	19,400	19,400	19,400	10,099
Total remuneration	29,100	19,400	19,400	19,400	10,099

Information for 2018 (in €)	H.M. Meijdam	G. van Vollenhoven AAG	J.E.M. Tijhuis	J.G. Pot	Prof. dr. D. Brounen
Position(s)	Chair	Member	Member	Member	Member
Period of employment in 2018	1 Feb - 31 Dec	1 Feb - 31 Dec	1 Jan - 31 Dec	25 Sep - 31 Dec	-
Remuneration	25,668	17,112	18,700	5,021	-
Total remuneration	25,668	17,112	18,700	5,021	-

Other disclosures under the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act

No officials employed under a contract of employment received remuneration in 2019 in excess of the individual maximum.

None of the identified senior managerial officials employed by WSW under a contract of employment are employed as a senior managerial official under a contract of employment at other bodies subject to the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act.

25.2 Date of preparation of the company financial statements

These company financial statements were prepared on 30 April 2020.

4. Consolidated Financial statements

26.1 Consolidated balance sheet at 31 December 2019

(after appropriation of the result)

Assets	Note	31 December 2019		31 December 2018	
		€	€	€	€
<i>Fixed assets</i>	4.				
Intangible fixed assets					
Software		<u>1,398,805</u>		<u>948,890</u>	
			1,398,805		948,890
Tangible fixed assets					
Refurbishments		103,998		208,403	
Computer systems		190,781		144,726	
Office equipment		<u>68,301</u>		<u>72,020</u>	
			363,080		425,149
<i>Financial fixed assets</i>	30.1				
Securities	30.2	525,724,858		528,549,924	
Deferred tax assets		-		1,215,171	
Other receivables	30.1	<u>900,000</u>		<u>-</u>	
			526,624,858		529,765,095
<i>Current assets</i>					
Receivables					
Guarantee fees receivable	6.1	4,386,609		4,313,595	
Corporation tax receivable	6.2	3,197,324		1,265,876	
Prepayments and accrued income	30.3	6,032,768		6,705,224	
Other receivables	30.4	<u>1,428,472</u>		<u>253,320</u>	
			15,045,173		12,538,015
Cash			<u>13,234,271</u>		<u>9,176,520</u>
			<u>556,666,187</u>		<u>552,853,669</u>

Capital and liabilities		31 December 2019		31 December 2018		
		Note	€	€	€	€
Consolidated capital		30.5				
Legal reserve			1,398,805		948,890	
Other reserve			<u>176,630,484</u>		<u>261,016,695</u>	
				178,029,289		261,965,585
Provisions						
Provision for deferred tax	30.6		276,048		-	
Provision for guarantee obligations	30.6.1		-		284,387,502	
Other provisions	30.6.2		<u>3,676,371</u>		<u>3,569,119</u>	
				3,952,419		287,956,621
Non-current liabilities						
Amounts owed to credit institutions	30.7			352,747,552		-
Current liabilities						
Redemption of long-term loans	30.7		19,398,518		-	
Suppliers and trade creditors			715,501		944,910	
Other tax and social security contributions	11.		384,396		58,513	
Accruals and deferred income	30.8		979,720		1,421,742	
Other payables	30.9		<u>458,792</u>		<u>506,298</u>	
				<u>21,936,927</u>		<u>2,931,463</u>
				<u>556,666,187</u>		<u>552,853,669</u>

26.2 Consolidated statement of income and expenditure for 2019

		2019	2018
		€	€
	Note		
Guarantee fees		17,306,440	17,146,589
Resolution fees		<u>95,244</u>	<u>319,245</u>
Total operating income		17,401,684	17,465,834
<i>Operating expenses</i>			
Salaries		6,097,290	5,175,307
Other employee benefits	30.12.1	4,206,803	2,206,811
Depreciation and amortisation		490,520	443,140
Movement in provisions	30.12.2	9,462,801	12,124,290
Other operating expenses	30.12.3	<u>4,800,362</u>	<u>4,993,666</u>
Total operating expenses		(25,057,776)	(24,943,214)
Operating profit		(7,656,092)	(7,447,380)
Realised and unrealised gains and losses on investments			
Financial income and expenses	30.12.4	378,048	(8,283,330)
		6,776,173	12,098,372
Result before tax		(501,871)	(3,662,338)
Corporation tax	31.	<u>(3,536,003)</u>	<u>(1,958,486)</u>
Consolidated result after tax		<u>(4,037,874)</u>	<u>(5,620,824)</u>

26.3 Consolidated cash flow statement for 2019**Cash flow from operating activities**

	<u>2019</u>	<u>2018</u>
	€	€
Result after tax	(4,037,874)	(5,620,824)
Adjustments for:		
Depreciation and amortisation	490,520	443,140
Realised and unrealised gains and losses on investments	(378,048)	8,283,330
Movement in provisions	9,462,801	12,124,290
Withdrawals from other provisions	(192,748)	(637,869)
Amortisation of long-term loans	(4,902,586)	-
Corporation tax paid	(3,976,232)	(4,205,398)
Redemptions of financial fixed assets receivable	213,000	-
Redemptions of outstanding loans	(9,038,217)	-
Movements in working capital:		
Movements in receivables	(2,545,076)	2,376,584
Movements in current liabilities excl. current loans	2,538,409	582,920
Movements in property intended for sale	1,091,000	-
<i>Cash flow from operating activities</i>	<i>(11,275,051)</i>	<i>13,346,173</i>
Cash flow from investment activities		
Additions to tangible fixed assets	(882,617)	(431,802)
Disposals of tangible fixed assets	4,251	-
Purchases of securities	(72,359,148)	(81,087,757)
Sales of securities and redemptions	75,562,262	69,115,602
<i>Cash flow from investment activities</i>	<i>2,324,748</i>	<i>(12,403,957)</i>
Movements in cash	(8,950,303)	942,216
Closing cash balance	13,234,271	9,176,520
Opening cash balance	9,176,520	8,234,304
Increase in scope of consolidation	13,008,054	-
Movements in cash	(8,950,303)	942,216

Increase in scope of consolidation is the cash held by consolidated entities at the date when first consolidated.

Notes to the consolidated balance sheet and statement of income and expenditure

27. General notes

27.1. Activities

The activities of Stichting Waarborgfonds Sociale Woningbouw (WSW), with its registered offices in Hilversum, consist primarily of guaranteeing loans to housing associations to fund projects for social housing and other properties with a social function. WSW is a not-for-profit foundation under Dutch law with an independent management structure, recorded in the Trade Register under number 41180946. WSW is subject to the supervision of the Dutch Authority for Housing Associations.

The consolidated financial statements of WSW incorporate the company financial statements of WSW and the financial information of Stichting Humanitas Huisvesting (SHH) and Woningstichting Geertruidenberg (WSG). The activities of Stichting Waarborgfonds Sociale Woningbouw (WSW), with its registered offices in Hilversum, consist primarily of guaranteeing loans to housing associations to fund projects for social housing and other properties with a social function. WSW is a not-for-profit foundation under Dutch law with an independent management structure and is subject to the supervision of the Dutch Authority for Housing Associations. WSG and SHH are institutions licensed pursuant to the Housing Act. The activities of WSG and SHH consist primarily of settling interest and redemption obligations on their residual loans following the separation and resolution.

See the accounting policies in the company financial statements for accounting policies for measuring assets and liabilities and determining the result that are not stated below.

27.2. Consolidated legal entities

Guarantee claims related to the settlement of WSG and SHH have led to arrangements for the payment of interest and redemptions to financial institutions. These arrangements are set out in implementation agreements dated 3 September 2018 for WSG and 17 January 2019 for SHH and in separate tripartite agreements with WSG and SHH and the financial institutions Bank Nederlandse Gemeente (BNG) and the Nederlandse Waterschapsbank (NWB). The implementation agreements state that the public housing duties are legally separated, that WSW will pay the normal interest and redemption obligations pursuant to guarantees already issued on those loans and that there are arrangements on certain costs for maintaining WSG and SHH.

Under the implementation agreements, WSW is entitled to approve the budgets for maintaining WSG and SHH and has control over financial obligations entered into by them that affect the guarantees it has issued. Further to these rights and the fact that WSG and SHH have no other activities, accounting standards (RJ 217.202) state that there is influence over policy that leads to a group relationship and a requirement for consolidation from the date of separation.

The tripartite agreements also include arrangements with the investors holding guarantees on the residual loans. These arrangements concern the resolution of certain loans that remained with the entities following the separation and payment of interest and redemption liabilities. Embedded derivatives have been removed from the loans and the interest rates were fixed. The implications of the resolution form part of the separation and so the restructured loans form the basis for the initial consolidation. Under the guarantees, WSW has been paying the normal interest and redemption liabilities on the residual loans since the date of separation to the extent that WSG and SHH are unable to do this themselves.

Stichting Waarborgfonds Sociale Woningbouw (WSW), Hilversum, is the parent of the group and is incorporating the financial information of the following legal entities in its consolidated financial statements, copies of which are available from the trade register of the Chamber of Commerce in Woerden.

Consolidated legal entities:

- Woningstichting Geertruidenberg, Geertruidenberg: consolidated from 1 January 2019;
- Stichting Humanitas Huisvesting, Rotterdam: consolidated from 1 July 2019.

The consolidated legal entities were incorporated in the balance sheet as follows on initial consolidation:

Assets	WSG 1 Jan 2019	SHH 1 Jul 2019	Total
	€	€	
<i>Fixed assets</i>			
Financial fixed assets			
Other receivables	-	1,113,000	1,113,000
Inventories			
Property intended for sale	-	1,091,000	1,091,000
<i>Current assets</i>			
Receivables			
Prepayments and accrued income	101,491	233,713	335,204
Other receivables	612,749	100,000	712,749
	714,240	333,713	1,047,953
Cash	7,423,054	5,585,000	13,008,054
Total assets	8,137,294	8,122,713	16,260,007
Capital and liabilities			
Provisions			
Provision for participating interests	70,850	-	70,850
Other provisions	300,000	-	300,000
	370,850	-	370,850
Long-term loans			
Long-term loans	241,887,398	125,912,808	367,800,206
Current liabilities			
Suppliers and trade creditors	174,358	931,000	1,105,358
Loans	16,851,403	1,435,263	18,286,666
Other tax and social security contributions	831,210	276,000	1,107,210
Accruals and deferred income	948,728	389,713	1,338,441
	18,805,699	3,031,976	21,837,675
Total capital and liabilities	261,063,947	128,944,784	390,008,731
Total assets less total capital and liabilities	(252,926,653)	(120,822,071)	(373,748,724)
Company provision for guarantee obligations (excluding operating expenses and legal fees)	159,995,115	133,855,187	293,850,302

Total direct capital movements on initial consolidation	92,931,538	(13,033,116)	79,898,422
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The provision for guarantee obligations in the above statement is the company provision for guarantee obligations of WSG (at 1 January 2019) and SHH (at 1 July 2019) and excludes operating expenses and legal fees. The reconciliation with the company provision for guarantee obligations:

	WSG at 1 Jan	SHH at 1 Jul	Total
Company provision for guarantee obligations	160,195,115	137,224,306	297,419,421
Legal fees and SHH CIT claim	(200,000)	(3,369,119)	(3,569,119)
Company provision for guarantee obligations (excluding legal fees and SHH CIT claim)	159,995,115	133,855,187	293,850,302

27.3. Opinions, estimates, assumptions and uncertainties

WSW makes estimates and assumptions based on the prevailing circumstances and information available when the financial statements are prepared. Uncertainties relating to these estimates and assumptions may result in material adjustment to the consolidated financial statements in future years. Estimates based on events after the reporting period (or the non-occurrence of expected events) may be subject to future market movements and circumstances that are beyond WSW's control. Changes in estimates are recorded prospectively in the financial statements. Where required in order to provide the view required by Section 362(1) of Book 2 of the Dutch Civil Code, information on the nature of these opinions and estimates, including the underlying assumptions, is disclosed in the notes on the item in question. The principal estimates relate to the other provisions.

27.4. Comparative figures

The figures from the company financial statements of WSW are presented as comparative figures since the consolidation requirements first arose in 2019.

28. Accounting policies for measuring assets and liabilities in the consolidated financial statements

28.1. Basis of consolidation

The consolidated financial statements at 31 December 2019 incorporate the financial information of WSW and legal entities where it exercises influence over policy.

Legal entities are fully consolidated from the date on which influence over policy at the legal entity is obtained. On initial recognition, the assets and liabilities of legal entities to be consolidated are measured at fair value. Legal entities are no longer included in the consolidation from the date on which there is no longer influence over policy.

Items in the consolidated financial statements are measured using uniform accounting policies. Individual assets and liabilities of the consolidated legal entities are recognised and measured in accordance with WSW's accounting policies. All inter-group transactions and results with and from the consolidated entities are eliminated.

Differences between the company and consolidated capital and result are disclosed the note on capital in the consolidated financial statements.

Financial information of WSG and SHH is included in the consolidation on the basis of WSW's accounting policies.

28.2. Non-current liabilities

On initial recognition, non-current liabilities are measured at fair value. The fair value on initial recognition is reduced by directly attributable transaction costs since subsequent recognition is not at fair value through profit or loss.

Non-current liabilities are subsequently recognised at amortised cost using the effective interest method. Gains or losses are recognised through the statement of income and expenditure when the obligation is no longer recognised in the balance sheet and through the amortisation process.

The current portion of non-current liabilities (amounts payable within 12 months) is recognised in current liabilities.

28.3. Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If a reliable fair value cannot be attributed directly to the financial instruments, the fair value is approximated by deriving it from the fair value of its components or a similar instrument or with the assistance of generally accepted valuation models and measurement techniques. This is done using recent similar arm's length transactions, the DCF method (present value of cash flows) and/or option valuation models, reflecting specific circumstances.

28.4. Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

28.5. Hedge accounting

The consolidated entities do not use hedge accounting.

29. Accounting policies for determining the result in the consolidated financial statements

See the accounting policies for determining the result in the company financial statements for the accounting policies for determining the result in the consolidated financial statements.

30. Notes to the consolidated balance sheet

30.1. Financial fixed assets

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Securities	525,724,858	528,549,824
Deferred tax assets	-	1,215,171
Other receivables	<u>900,000</u>	<u>-</u>
	<u>526,624,858</u>	<u>529,765,095</u>

Other receivables are the long-term portion of the receivable from Stichting Humanitas Zorg. A contract recording the legal relationship of parties for €1.0 million was entered into on 14 May 2019. This amount is to be repaid in ten annual instalments of €100,000. The first instalment is payable on 14 May 2020 and has been recognised in other receivables. No interest is payable on the receivable. A second mortgage has been granted on premises at Achillesstraat 290, Rotterdam, recorded in the land register in the municipality of Hillegersberg, section F, number 1584, as security for payment of the debt. The present value of the receivable is €901,115 (nominal value: €900,000).

30.2. Securities

See note 5 to the company financial statements for details of the securities.

30.3. Prepayments and accrued income

Accrued interest	5,661,617	6,491,481
Prepaid other costs	362,151	213,743
Interest receivable	<u>9,000</u>	-
	<u>6,032,768</u>	<u>6,705,224</u>

Accrued interest income relates to interest earned on the investment portfolio.

30.4. Other receivables

Amounts recharged to third parties	-	229,273
Stichting Humanitas Zorg	100,000	-
Stichting Berberis	213,000	-
Govers Spil Notarissen	1,091,000	-
Other receivables	<u>24,472</u>	<u>24,047</u>
	<u>1,428,472</u>	<u>253,320</u>

Stichting Humanitas Zorg

This is the current portion of the receivable from Stichting Humanitas Zorg.

Stichting Berberis

SHH granted Stichting Berberis a loan of €512,569 on 7 March 2003 at an interest rate of 4.25% per annum. The loan matures in 1 April 2033. It is expected that the loan will be repaid in full in mid-2020.

Govers Spil Notarissen (civil-law notaries)

This receivable is for monies receivable for the sale agreed in the past by SHH for the delivery of a car-park. Delivery has been effected and SHH received the monies in early 2020.

30.5. Consolidated capital

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Consolidated capital		
Legal reserve	1,398,805	948,890
Other reserve	<u>176,630,484</u>	<u>261,016,695</u>
	178,029,289	261,965,585

Movements in consolidated capital:

	Other reserve	Legal reserve	Consolidated capital
Capital at 1 January 2019	261,016,695	948,890	261,965,585
Total direct capital movements on initial consolidation	(79,898,422)	-	(79,898,422)
Result for the reporting period	(4,487,789)	449,915	(4,037,874)
Capital at 31 December 2019	176,630,484	1,398,805	178,029,289

The direct movements on consolidation are the combined measurement differences in the opening balance sheet on initial recognition of WSG and SHH (see notes 30.5.1 and 30.5.3).

30.5.1. Notes to measurement differences on initial recognition

Consolidation of the opening balance sheets of WSG and SHH led to direct movements in capital. These movements were the difference at the date of initial consolidation between the estimated value of the interest and redemptions in the provision for guarantee obligations at WSW and the amounts owed to credit institutions in the financial statements of WSG and SHH. There were also direct movements in capital since assets were received from WSG and SHH to cover their future operations.

WSW is settling the loans of the residual WSG and SHH entities under the guarantee since WSW has taken over their liabilities with respect to residual loan servicing payments insofar as WSG and SHH are unable to meet their interest and redemption obligations. WSG and SHH have recognised the present value of these liabilities in their own financial statements as owed by WSW. This amount is not the same as the provision for guarantee liabilities that WSW has recorded in its company financial statements. The provision for guarantee liabilities that WSW has formed for WSG reflects possible lower payment obligations under the guarantee arising from the ongoing appeal proceedings (see note 9.1 Provision for guarantee obligations in the company financial statements) and is on balance some €116 million lower than the expected present value of the loan servicing payments that WSG has recognised as owed by WSW.

The difference between the amounts owed to credit institutions in the opening balance sheets of WSG (at 1 January 2019) and of SHH (at 1 July 2019) and the provision for guarantee obligations calculated by WSW at those dates led to an adjustment to the consolidated capital. Differences arising after the opening balance sheet in 2019 are recognised through the consolidated result.

30.5.2. Notes on the difference between the company and consolidated results

The difference between the company and consolidated results for 2019 was €6,439,854 as follows:

	€
Result in the company financial statements	(10,477,728)
Operating expenses and income at WSG and SHH since initial consolidation	(820,409)
Adjustment for addition to the company provision for guarantee obligations	11,800,971
Adjustment for interest expenses and amortisation of market value on initial recognition	(4,540,708)
Result in the consolidated financial statements	(4,037,874)

The adjustment for the addition to the provision for guarantee obligations is the addition in the company financial statements of €21,263,772 less €9,462,801 discounting for the first half of the year for the claim from SHH.

30.5.3. Notes on the difference between the company and consolidated capital

The difference between the consolidated capital in WSW's consolidated financial statements and the capital in the company financial statements is as follows:

	€
Capital in the company financial statements at 31 December 2019	251,487,857
Direct movements in consolidated capital	(79,898,422)
Difference between company and consolidated results	<u>6,439,854</u>
Capital in the consolidated financial statements at 31 December 2019	178,029,289

30.6. Provisions

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Provision for guarantee obligations	-	284,387,502
Provision for deferred tax	276,048	-
Other provisions	<u>3,676,371</u>	<u>3,569,119</u>
	<u>3,952,419</u>	<u>287,956,621</u>

30.6.1. Provision for guarantee obligations

WSW has formed a provision in the company financial statements for liabilities to WSG and SHH resulting from its role as a guarantor. Amounts for operating expenses and legal fees in the previous year's provision in the opening balance sheet have been reclassified to other provisions in the consolidated financial statements. The movements in the provision for guarantee obligations were as follows:

	2019	2018
	€	€
Balance at 1 January	284,387,502	276,470,200
Discounting for SHH: first half year	9,462,801	-
Addition in 2018	-	12,124,290
Adjustment on initial consolidation (note 27.2)	(293,850,303)	-
Reclassification to other provisions	<u>-</u>	<u>(3,569,119)</u>
Balance at 31 December	-	284,387,502

The discounting in the provision for guarantee obligations of SHH for the first half year used the European swap interest rate at 1 July 2019.

30.6.2. Other provisions

The movements in the other provisions were:

Balance at 1 January	3,569,119	-
Reclassification from provision for guarantee obligations	-	3,569,119
Addition on initial consolidation	300,000	-
Withdrawal	<u>(192,748)</u>	<u>-</u>
Balance at 31 December	3,676,371	3,569,119

The reclassification of €3.6 million from the provision for guarantee obligations comprised €3.2 million for corporation tax on the remaining premium on SHH's loans and a provision for legal fees for WSW for the appeal proceedings against the State of €0.4 million. The full amount of the other provisions is regarded as long term (more than one year). It is expected that €0 has a term of more than five years.

30.7. Non-current liabilities

Non-current liabilities are amounts owed to credit institutions of €352.7 million relating to loans granted by credit institutions to WSG and SHH. WSW is guarantor for these loans. Movements in non-current liabilities were:

	€
Balance at 1 January 2019	-
Consolidation of WSG at 1 January	258,738,801
Consolidation of SHH at 1 July	127,348,071
Redemptions of loans	(9,038,216)
Amortisation of loans	(4,902,586)
Transfer to current liabilities	(19,398,518)
Balance at 31 December 2019	352,747,552

On the increase in scope of consolidation, the loans were initially recognised as market value (fair value) including accrued interest. Differences between the market value and nominal value of the loans are being amortised. Amortisation of the loans is €139.3 million over the full term, including €4.9 million in 2019.

	€
Market value of loans in the opening balance sheets of WSG and SHH	386,086,872
Nominal value on initial consolidation	246,835,466
Amortisation over the remaining term of the loans	139,251,406

The criteria for setting market value were:

- General:
Market value, including accrued interest, was computed using the 6-month Euribor swap curve at 1 January 2019 and 1 July 2019. The market value for SHH at 31 December 2019 used a spread of 20.0 base points on the 6-month swap curve.
- Basic interest rate loan:
Market value was determined using the basic interest rate (including spread). The market value is the value from the computation date to the end of the term.
- Fixed interest loans
The interest on the loans has been fixed for the full term from the date of consolidation.
- Redemptions
The loans are repaid at maturity or on a straight-line basis.

The market value at 31 December 2019 was €394.0 million, including accrued interest. A spread of 21.5 base points was applied to the 6-month swap curve when measuring the market value at 31 December 2019.

At 31 December 2019, the weighted average interest rate was 4.62% for loans of WSG and 3.75% for loans of SHH.

The nominal residual amount of interest and redemptions in the loan portfolio at 31 December 2019 was €444.0 million.

Of which:

maturity < 1 year	19.4 million
maturity >= 1 year and <=5 years	76.5 million
maturity > 5 years	348.1 million

30.8. Accruals and deferred income

Accruals and deferred income were as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
	€	€
Accrued paid leave entitlements	177,285	151,615
Reserve for individual career budgets	118,123	99,737
Advance payments for SBR-wonen	521,619	1,170,390
Other accruals and deferred income	162,693	-
	<u>979,720</u>	<u>1,421,742</u>

30.9. Other payables

Other payables were as follows:

	<u>2019</u>	<u>2018</u>
	€	€
Commuting allowances payable	62,393	60,234
Investment portfolio management fees payable	48,743	63,942
Expenses payable	<u>347,656</u>	<u>382,122</u>
	458,792	506,298

30.10. Risks in financial instruments

30.10.1 General

This note provides information to assist in assessing the risks associated with financial instruments in the balance sheet and those not recognised in the balance sheet.

The consolidated entities do not enter into transactions in derivatives, such as currency futures and interest rate swaps, to hedge interest rate risk arising from their operating and financing activities. There is no currency risk. The policy of the consolidated entities is not to undertake speculative trades in financial instruments.

The principal risks in the group's financial instruments are interest rate risk, price risk, credit risk and liquidity risk.

The policy of the consolidated entities to limit these risks is set out below.

30.10.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument fluctuate as a result of movements in market interest rates. The risk run by the consolidated entities from fluctuations in market interest rates is limited since their non-current liabilities are fixed interest. The consolidated entities are maintaining their loans at fixed interest rates agreed at the time of the separation. Future cash flows are thus fixed but the market value may change with future market interest rate changes. Given the yield curve at the end of 2019, a fall of 1 percentage point in interest rates could create an increase in market value of the loans portfolio of some €70.7 million and an increase of 1 percentage point in interest rates could create a fall in market value of some €55.1 million. This fluctuation is greater than the fluctuation in the market value of the investments which would increase or decrease by about €28.2 million on a 1 percentage point movement. On balance, interest sensitivity with a fluctuation of 1 percentage point is €42.5 million.

30.10.3 Price risk

The consolidated entities run risks with respect to the value of securities recognised in financial fixed assets (see note 5). The consolidated entities manage the price risk by maintaining a passive investment policy relative to a market-weighted benchmark. In accordance with its investment policy, WSW invests exclusively in euro-denominated bonds. The maximum holding per issuer is 10%, except for the sovereign debt of euro area countries. Fixed-income securities with an A rating may not constitute more than 10% of the portfolio. If this percentage is exceeded as the result of a downgrade, the portfolio is rebalanced so that the limit is no longer exceeded.

30.10.4 Credit risk

WSW ran a limited credit risk on €543.5 million at 31 December 2019 in terms of debtors, cash and invested capital. The investment portfolio was €525.7 million, comprising listed euro-denominated bonds with at least an AAA or AA rating and the maximum holding per issuer is 10%, except for the sovereign debt of euro area countries. Cash of €4.2 million is held at ING which has an A+ credit rating. WSW runs a credit risk on receivables on €13.6 million. The consolidated entities have drawn up guidelines to limit the size of the credit risk with each financial institution and debtor. In addition the consolidated entities continuously monitor their receivables and apply strict collection procedures.

30.10.5 Liquidity risk

WSW prepares regular liquidity budgets. In the event of liquidity shortfall, WSW can obtain cash by selling part of its investment portfolio. WSW has a bank facility of up to €433.5 million under which cash amounting to 95% of the market value of the investment portfolio is made immediately available in the event of a claim. Furthermore, WSW can call capital committed by the participants and so have cash available over the longer term.

At 31 December 2019, the non-discounted contractual payment obligations were as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Loans	19,398,518	19,011,769	57,437,091	348,115,490
Trade creditors and other payables	715,501	-	-	-
Total	20,114,019	19,011,769	57,437,091	348,115,490

30.11. Off-balance sheet assets and liabilities

30.11.1. Resolution grant

WSW, WSG and SHH have all instituted appeals against the decision of the State to reject all or part of the resolution grants. See note 14.6 to the company financial statements for further information.

30.11.2. Claims and legal proceedings

Existing claims and proceedings involving WSG and SHH include a claim that SHH has lodged against former board members. The legal fees that SHH is incurring for this are being reimbursed by Woonbron. WSW is not contributing to this. Any proceeds from this claim will go to Woonbron.

WSG has a guarantee liability relating to property that WSG developed long ago. There is a negligible probability of a claim.

30.11.3. Pensions

WSG and SHH no longer have any pension liabilities. All SHH's pension liabilities were transferred to Woonbron. WSG's pension liabilities were in 2018 agreed on the basis of estimates per individual and the residual liabilities were transferred to the pension fund.

30.11.4 Residual liabilities after the separation of WSG and SHH

Pursuant to the implementation agreements on the separation, nominal interest and redemption liabilities are being paid under guarantees for residual loans, in accordance with servicing the loans from the date of the separation to maturity. Other than payment of the maintenance costs of WSG and SHH, WSW is not making any other payments, guarantees, indemnifications and/or other contributions to WSG and SHH or any third parties. If after the separation SHH or WSG earns unexpected financial income, it has to use such amounts as instructed by WSW.

See note 14 to the company financial statements for other off-balance sheet rights and obligations.

30.12. Notes to the consolidated statement of income and expenditure

30.12.1. Other employee benefits

	<u>2019</u>	<u>2018</u>
	€	€
Temporary staff employed via third parties	3,086,888	1,353,926
Other employee benefits	<u>1,119,915</u>	<u>852,885</u>
	<u>4,206,803</u>	<u>2,206,811</u>

30.12.2. Movement in provisions

Discounting for SHH: first half year	9,462,801	-
Addition in 2018	-	12,124,290
	<u>9,462,801</u>	<u>12,124,290</u>

See note 30.6.1 on the Provision for guarantee obligations in the consolidated financial statements and the notes to the consolidated capital for the release of the provision for guarantee obligations.

30.12.3. Other operating expenses

Cost of premises	361,618	360,956
General overheads	4,263,375	4,449,394
Cost of supervisory and advisory bodies	<u>175,549</u>	<u>183,316</u>
	<u>4,800,362</u>	<u>4,993,666</u>

30.12.3.1. Cost of premises

Rent	185,283	181,828
Cleaning	36,020	31,777
Gas, water and electricity	72,708	83,033
Insurance	29,457	15,512
Other costs relating to premises	<u>38,150</u>	<u>48,806</u>
	<u>361,618</u>	<u>360,956</u>

30.12.3.2. General overheads

	<u>2019</u>	<u>2018</u>
	€	€
IT	1,541,117	1,789,734
Consultants	820,679	685,193
Auditor	242,804	230,504
Investment expenses	429,494	456,471

Information and documentation	53,842	109,472
Rating agencies	108,960	101,177
Costs of retrieving data from participants	953,418	1,069,149
Other general expenses	<u>113,061</u>	<u>7,693</u>
	<u>4,263,375</u>	<u>4,449,393</u>

30.12.4. Financial income and expenses

Interest earned on the investment portfolio	11,307,881	12,098,372
Other interest income	9,000	-
Interest expense on non-current liabilities	(9,443,294)	-
Amortisation of non-current liabilities	4,902,586	-
	<u>6,776,173</u>	<u>12,098,372</u>

31. Taxes

31.1. Tax position

WSW and WSG have been fully liable for corporation tax since 1 January 2008 and SHH since 1 January 2012. Details have been set out in advance tax agreements. The agreement for WSW includes specific provisions on the valuation of items in the opening tax balance sheet and the recognition of the result. WSW is not in a fiscal unity with WSG and SHH.

WSG forms a fiscal unity for corporation tax purposes with WSG Holding B.V. and WSG Projectontwikkeling B.V. Its terms mean that WSG and its subsidiaries in the fiscal unity are jointly and severally liable for the tax payable by the combination.

SHH

There is still no complete certainty on SHH's tax position. SHH is in talks with the Tax and Customs Administration on this.

WSG

There is no risk that WSG has to pay corporation tax. Loss relief was such that this cannot be offset during the period available for recovery.

See note 23 to the company financial statements for information on the corporation tax charge for 2019 in the consolidated financial statements.

32. Date of preparation of the consolidated financial statements

These consolidated financial statements were prepared on 30 April 2020.

Signed by the Executive Board and the Supervisory Board

Hilversum, 30 April 2020

Stichting Waarborgfonds Sociale Woningbouw (Social Housing Guarantee Fund)

Executive Board

Executive Board

Mr R. Rötscheid MFE

Mr L.J. van Kalsbeek

Supervisory Board

Supervisory Board

Mr H.M. Meijdam, chair

Ms G. van Vollenhoven-
Eikelenboom AAG, member

Supervisory Board

Supervisory Board

Ms J.E.M. Tijhuis, member

Mr J.G. Pot, member

Supervisory Board

Prof. D Brounen, member

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