

Annual report for 2017 National Resolution Fund

Amsterdam

National Resolution Fund
PO Box 98, 1000 AB Amsterdam
Westeinde 1, 1017 ZN Amsterdam

Chamber of Commerce registration: 65034929 0000

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Report of the Management Board

National Resolution Fund

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De Nederlandsche Bank N.V. (DNB) was appointed national resolution authority (NRA) effective 1 January 2015. The NRA's objective is to safeguard orderly resolution in the event that a bank or investment firm should fail. This protects deposit holders and hence helps ensure financial stability, at the lowest possible cost to the taxpayer. The Bank Recovery and Resolution Directive (BRRD)¹ was transposed to Dutch legislation² in late November 2015. The implementation act also provided for the establishment of the National Resolution Fund (NRF). The statutory name of the National Resolution Fund is "Afwikkelingsfonds", but the name used in this report is National Resolution Fund (NRF).

Use, scope and funding of the NRF

DNB can use the NRF to facilitate the effective deployment of resolution instruments. Section 3a:69 of the Financial Supervision Act (*Wet op het financieel toezicht – Wft*) and Article 101 of the BRRD list the cases in which the NRF may be used. Over a period of ten years (2015-2024), contributions are collected from banks and investment firms to build up the NRF³. DNB, acting in its capacity of NRA, determines and collects the annual contributions, using the applicable regulation to calculate the annual contributions⁴.

In 2015, the first year of the NRF's existence, the NRF applied to banks licensed in the Netherlands, Dutch branch offices of institutions from outside the EEA (European Economic Area) and investment firms subject to the EUR 730,000 start-up capital requirement. On 1 January 2016, the SRM Regulation⁵ entered into force, under which the European Single Resolution Fund (SRF) was established.⁶ This effectively brought the banks licensed in the Netherlands under the scope of the SRF. Its exact scope is defined in Article 2 of the SRM Regulation. The SRF may be called upon if the SRB needs it to effectively implement resolution measures for an SRM institution.

1 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms

2 Act implementing the European Framework for the Recovery and Resolution of Banks and Investment Firms, Bulletin of Acts, Orders and Decrees 2015, no. 431.

3 No contributions will be charged after this period if the NRF is not used in the meantime.

4 As set out in Section 7h of the Decree on Special Prudential Measures, Investor Compensation and Deposit Guarantees under the *Wft* (*Besluit bijzondere prudentiële maatregelen, beleggerscompensatie en depositogarantie Wft – Bbpm*).

5 Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund.

6 The Single Resolution Fund as referred to in Recital 19 of the SRM Regulation referred to above.

- 6 Since the SRF was established, the NRF's scope has been limited to Dutch branch offices of non-EEA banks and investment firms subject to the EUR 730,000 start-up capital requirement.

Activities

The NRF's task is to administer the financial resources which can be used by the NRA to effectively implement resolution measures. It makes financing available in accordance with the NRA's instructions. DNB supports the NRF in performing its task, providing the resources and services needed, including keeping its financial accounts.

Contributions

DNB determines the NRF contributions annually on the basis of the relevant statutory framework. The reference date in this respect is 1 January. Any objection against the amount of the contribution must be lodged with DNB, rather than the NRF.

If the NRF's available financial resources should be inadequate, DNB can charge extraordinary contributions equalling three times the regular ex ante annual contributions.

Own funds

Contributions collected are added to the NRF's own funds. No payments were made from own funds in 2017.

Risk management

The NRF holds the reserve funds' financial resources in a current account with DNB. This minimises the risks associated with investing them. A changeover to treasury banking is envisaged in early 2018.

Internal control

DNB has outsourced the NRF's accounting processes to DNB. DNB has an integrated risk management framework and policy for the early identification and management of the principal risks. Its risk management model is based on the principle of three lines of defence. The Management Board has instructed an independent auditor to audit the financial statements and to report on its findings (see page 18).

Legal structure

The NRF is a legal entity incorporated under public law on 26 November 2015 with registered office in Amsterdam, listed in the Trade Register of the Chamber of Commerce under number 65034929 0000.

Remuneration policy

In accordance with the decision by DNB's Governing Board, in the year under review, the members of the NRF's Management Board did not receive any remuneration for their work, nor did DNB provide them with any loans, advances or guarantees.

Management Board and workforce

The NRF has a three-member Management Board. DNB appoints, remunerates, suspends and dismisses them.

At the time of the adoption of the 2017 financial statements, the members of the Management Board were:

- Jan Marc Berk - *Chair*
- Bert Boertje - *member*
- Martin Heerma - *secretary*

Jan Marc Berk replaced Bert Boertje as Chair on 29 June 2017.

The NRF does not employ any staff, as DNB supports it in performing its statutory duty, making available staff and other resources.

Outlook

The total contributions to be collected for the NRF in 2018 will be EUR 504,000. The longer-term average contributions level is expected to be around EUR 500,000.

Signing of the Report of the Management Board

Amsterdam, 12 March 2018

The Management Board of the National Resolution Fund

Jan Marc Berk

Bert Boertje

Martin Heerma

Financial statements

Balance sheet as at 31 December 2017 (following appropriation of the result)

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1 = € 1,000,-

	31-12-2017	31-12-2016		31-12-2017	31-12-2016
	EUR	EUR		EUR	EUR
Assets			Liabilities		
1 Current account deposits	1,997	1,492	1 Own funds	1,997	1,492
2 Receivables	11	11	2 Payables	11	11
Total assets	2,008	1,503	Total liabilities	2,008	1,503

Statement of income and expenditure for 2017

1 = € 1,000,-

	2017	2016
	EUR	EUR
Income		
1 Contributions	512	891
2 Interest settled with the SRF	-	110
3 Reimbursement of costs	20	33
Total income	532	1,034
Expenses		
4 Interest expenses	-7	-114
5 Independent auditor's fee	-11	-11
6 Other costs	-9	-22
Total expenses	-27	-147
Result for the year	505	887

Statement of cash flows for 2017

1 = € 1,000,-

	2017	2016
	EUR	EUR
1 Cash flows from operating activities	505	-452,193
1.1 Result	505	887
1.2 Movements in accounts receivable	0	7
1.3 Movements in accounts payable	0	-453,087
2 Cash flows from investment activities	-	-
3 Cash flows from financing activities	-	-
Movements in current account deposit	505	-452,193

Notes to the balance sheet as at 31 December 2017 and statement of income and expenditure for 2017

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Accounting policies

The financial statements were prepared in accordance with the Non-Departmental Public Bodies Framework Act (*Kaderwet zelfstandige bestuursorganen – Kzbo*), and Part 9 of Book 2 of the Dutch Civil Code⁷ was applied correspondingly to the extent possible. In addition, the Dutch Accounting Standards (*Richtlijnen voor de Jaarverslaggeving – RJ*) were applied.

Accounts receivable and payable

The accounts receivable as current account balances and other accounts receivable and payable are presented at their nominal amounts.

Income and expenses

Income and expenses are recognised in the financial year in which they are received or paid. Accounts payable and potential losses originating before the end of the financial year are taken into account to the extent known before the financial statements were compiled.

Taxes

The NRF is not liable to pay corporation tax.

⁷ The relevant sections of the *Kzbo* are listed in the *Bbpm*, Bulletin of Acts, Orders and Decrees 2015, no. 433

1. Notes to the balance sheet

Assets

1. Current account deposits

This item, amounting to EUR 1,997,000 as at 31 December 2017 (31 December 2016: EUR 1,492,000), consists of demand deposits held with DNB. DNB charges interest on the current account deposits, which equals the deposit facility rate. As at 31 December 2017, this was -0.4% (31 December 2016: -0.4%).

2. Accounts receivable

This item, amounting to EUR 11,000 as at 31 December 2017 (31 December 2016: EUR 11,000) concerns the reimbursement to be received from DNB of costs to be incurred⁸. These costs were, as at 31 December 2017, the budgeted audit and payment systems fees.

Liabilities

1. Own funds

The result for 2017 was added to own funds in full. It is mainly comprised of the contributions collected and interest expenses. Following appropriation of the result, own funds equalled EUR 1,997,000 at 31 December 2017 (31 December 2016: EUR 1,492,000). Own funds were not used to fund resolution measures in 2017. The BRRD⁹ and the Financial Supervision Act (*Wet op het financieel toezicht – Wft*¹⁰) describe exhaustively for which resolution purposes the NRA may request the NRF to apply its own funds. The NRF may not apply its own funds for any other purposes.

2. Accounts payable

This item, amounting to EUR 11,000 as at 31 December 2017 (31 December 2016: EUR 11,000) comprises budgeted audit fees and payment systems fees payable.

⁸ DNB reimburses the NRF for the costs incurred. Pursuant to the Financial Supervision Funding Act (*Wet bekostiging financieel toezicht*), DNB will recover these costs from the financial sector.

⁹ Article 101 of the BRRD

¹⁰ Section 3a:69 of the Financial Supervision Act

2. Notes to the statement of income and expenditure

1. Contributions

DNB set the annual contributions for 2017 at EUR 512,000 (2016: EUR 891,000). The amount was collected in 2017 in full. The objection period has expired, and DNB did not receive any objections against its decisions setting the contributions.

Decisions and contributions by type of institution

1 = € 1,000,-

	2017		2016	
	EUR		EUR	
	No. of institutions	Contributions	No. of institutions	Contributions
Branch offices of non-EEA banks	3	375	4	885
Investment firms (start-up capital > EUR 730,000)	7	137	6	6
Total	10	512	10	891

2. Interest settled with the SRF

No interest was settled with the SRF in 2017 (2016: EUR 110,000). Until 29 January 2016, the NRF administered EUR 453,087,000 in contributions for the SRF. It paid EUR 110,000 in negative interest on this amount in 2016. The SRB agreed with the NRAs that it would reimburse them for interest expenses. Accordingly, the NRF deducted the negative interest before transferring the contributions to the SRF on 29 January 2016.

3. Reimbursement of costs

DNB reimburses the NRF for the costs incurred, which were EUR 20,000 in 2017 (2016: EUR 33,000). Pursuant to the Financial Supervision Funding Act, DNB will recover these costs from the financial sector. For 2017, DNB reimburses the costs of holding a BIC code and a SWIFT account, of EUR 9,000 (2016: EUR 22,000) and budgeted audit fees, of EUR 11,000 (2016: EUR 11,000).

4. Interest expenses

The NRF owes interest at the deposit facility rate on the current account deposits held with DNB. The interest rate stood at -0.40% throughout the financial year. The interest expenses were EUR 7,000 in 2017 (2016: EUR 4,000 for NRF institutions and EUR 110,000 for the SRF institutions for which the NRF administered funds until 29 January 2016).

Interest expenses

1 = € 1,000,-

	2017	2016
	EUR	EUR
NRF institutions	7	4
SRF institutions, until 29 January 2016	-	110

5. Independent auditor's fee

The budgeted fee of the independent auditor amounts to EUR 11,000 (2016: EUR 11,000), and it relates to the audit of the 2017 financial statements.

6. Other costs

The NRF incurred charges relating to the use of a BIC code and a SWIFT account, and for making system modifications. They totalled EUR 9,000 in 2017 (2016: EUR 20,000). DNB supports the NRF in performing its task, providing the resources and services needed, including keeping and safekeeping its financial accounts. As agreed between DNB and the NRF, DNB bears the costs involved in these support activities directly. They are not charged to the NRF.

7. Financial risks and risk management

The NRF's financial resources are held in a current account with DNB. This minimises the risks associated with investment

8. Workforce

The NRF did not employ any staff in 2017.

9. Remuneration of the members of the Management Board

The members of the Management Board were appointed for a period of four years, with effect from 19 April 2016. Jan Marc Berk succeeded Bert Boertje as Chair on 29 June 2017. At present, their positions on the Management Board are:

- Jan Marc Berk - *Chair*
- Bert Boertje - *member*
- Martin Heerma - *secretary*

The NRF is a legal entity under public law, which means it is governed by the Public and Semi-public Sector Executives Remuneration (Standards) Act (*Wet Normering Topinkomens – WNT*). In accordance with the decision taken by DNB's Governing Board, the members of the Management Board did not receive any remuneration for 2017. There were no loans outstanding to members of the Management Board as at 31 December 2017.

10. Related parties

The NRF works closely with DNB which supports it in the adequate performance of its task. As the NRA, DNB also decides when the NRF's financial resources can be applied.

3. Notes to the statement of cash flows

The statement of cash flows on page 10 has been prepared using the indirect method.

The financial resources listed in the statement of cash flows are cash and cash equivalents. Interest and similar income and interest and similar expenses are recognised under cash flows from operating activities.

1. Cash flows from operating activities

Cash flows from operations total EUR 505,000 (2016: EUR -452,193,000), comprising three items:

- 1.1 Operational result: EUR 505,000 (2016: EUR 887,000).
This is the result as stated in the statement of income and expenditure.
- 1.2 Movement in accounts receivable: EUR nil (2016: EUR 7,000).
Movements in accounts receivable, as explained in item 2 under "Assets" of the notes to the balance sheet, were nil in 2017.
- 1.3 Movement in accounts payable: EUR nil (2016: EUR -453,087,000).¹¹
Movements in accounts payable, as explained in item 2 under "Liabilities" of the notes to the balance sheet, were nil in 2017.

2. Cash flows from investment activities

There were no cash flows from investment activities.

3. Cash flows from financing activities

There were no cash flows from financing activities.

¹¹ In 2016, this cash flow was EUR -452,193,000, caused mainly by transfers of contributions for the SRF (see item 2 of the notes to the statement of income and expenditure).

Appropriation of the result

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The result for the 2017 financial year has been added to own funds.

Events after the balance sheet date

There were no notable events after the balance sheet date.

Signing of the financial statements

Amsterdam, 12 March 2018

The Management Board of the National Resolution Fund

Jan Marc Berk

Bert Boertje

Martin Heerma

Other information

Independent auditor's report

To the Management Board of the National Resolution Fund

Report on the financial statements for 2017 as set out in the Annual Report

Our opinion

We have audited the 2017 financial statements of the National Resolution Fund in Amsterdam.

In our opinion, the financial statements set out in this annual report fairly present the financial position of the National Resolution Fund's own funds as at 31 December 2017 and the result for the financial year then ended, in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. The balance sheet as at 31 December 2017;
2. the profit and loss account for the year then ended; and
3. the notes, comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing and the Audit Protocol under the Public and Semi-public Sector Executives Remuneration (Standards) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*). Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of the National Resolution Fund in accordance with the Code of Ethics for Professional Accountants (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten – ViO*) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Dutch Code of Ethics (*Verordening gedrags- en beroepsregels accountants – VGBA*).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our independent auditor's report thereon, the annual report contains other information that consists of:

- The management report
- The other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Description of responsibilities regarding the financial statements

The Management Board's responsibilities for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code and the provisions of and pursuant to the WNT. Furthermore, the Management Board is responsible for such internal control as it determines necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the National Resolution Fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless it either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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The Management Board should disclose events and circumstances that may cast significant doubt on the National Resolution Fund's ability to continue as a going concern in the financial statements.

The Management Board is responsible for exercising supervision on the financial reporting process of the National Resolution Fund.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Resolution Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Concluding on the appropriateness of the Management Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Resolution Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the National Resolution Fund to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 12 March 2018
Deloitte Accountants B.V.

Ronald Spijker

