

# Annual report for 2017 Deposit Guarantee Fund

Amsterdam

Deposit Guarantee Fund  
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# Foreword

4 This Annual Report describes the activities performed by the Deposit Guarantee Fund (DGF) and the developments that affected it in 2017. It also looks ahead to future developments. It contains the management report and financial statements, which are submitted to De Nederlandsche Bank (DNB) no later than 15 March 2018<sup>1</sup>.

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<sup>1</sup> Pursuant to Section 29.10(3) of the Decree on Special Prudential Measures, Investor Compensation and Deposit Guarantees under the Wft (*Besluit bijzondere prudentiële maatregelen, beleggerscompensatie en depositogarantie Wft – Bbpm*)

# Report of the Management Board

The deposit guarantee scheme (DGS) protects deposits held at banks holding a Dutch banking licence and other banks that mandatorily participate in the scheme. It guarantees an amount of up to EUR 100,000 per depositor per bank. The DGF was established in late 2015 to fund the DGS. It is a legal entity incorporated under public law with registered office in Amsterdam. The DGF's task is to administer the financial resources needed to operate the DGS. If a bank should fail, the DGF will fund the depositor compensation amounts established by DNB. The DGF can also be used to fund resolution instruments.

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## Accumulation of own funds

The banks bear the costs involved in the DGS.<sup>2</sup> Since 2016, the banks have paid quarterly contributions to the DGF. A newly licensed bank having its registered office in the Netherlands will automatically be subject to the DGS and must contribute to the reserve fund. DNB sets the contributions. By mid-2024, the DGF must amount to 0.8% of the aggregate guaranteed deposits<sup>3</sup>. A bank's contribution depends on the balance of its deposits as guaranteed under the DGS (the deposit base) and its risk profile, also relative to those of the other participating banks. If a bank should fail and depositors are unable to access their current or savings accounts, DNB awards compensation to depositors. The DGF will finance the compensation from its own funds, supplemented where needed by extraordinary contributions levied from other banks.

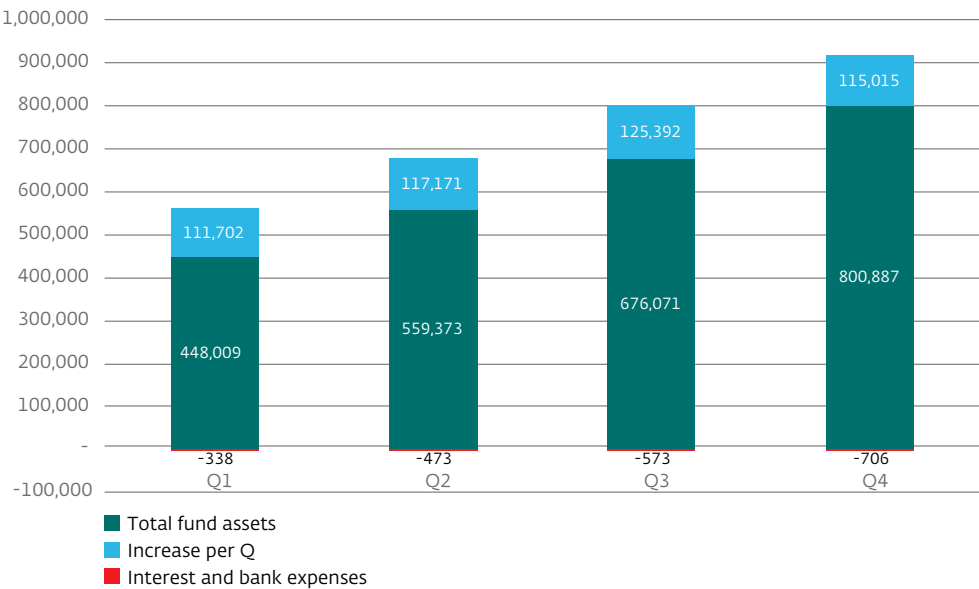
During the fund's accumulation phase, banks contribute roughly 0.94% of their deposit base each year, in addition to a supplementary levy (*suppletie*) designed to maintain the DGF's own funds in relation to growth in deposits. Based on the current volume of aggregate guaranteed deposits, annual contributions currently total between EUR 450 and EUR 500 million. Taking into account growth in the volume of guaranteed deposits, own funds are expected to reach the target level of some EUR 5 billion by mid-2024.

<sup>2</sup> The *Bbpm* provides that banks must contribute to the DGS.

<sup>3</sup> As stipulated in Article 10(2) of Directive 2014/49/EU on deposit guarantee schemes.

6 At year-end 2017, they stood at EUR 915 million. The figure below shows the development in own funds in 2017.

Figure 1 Accumulation of the DGF's own funds in 2017  
in EUR thousands



The DGF’s own funds have an individualised and a collective component. Both components have their own specific purpose and comprise contributions paid by the banks.

- The individualised component comprises balances attributed to each individual bank, which are accumulated from their basic contributions (*basisbijdrage*) and supplementary contributions (*suppletie*). For each bank, the target level equals 0.4% of its deposit base.
- The collective component comprises the risk-based contributions (*risicobijdrage*) and supplementary risk-based contributions (*risicosuppletie*) paid by the banks. This component’s target level equals 0.4% of the banks’ combined deposit base.

No amounts were withdrawn from the DGF’s own funds to finance the DGS or deploy resolution instruments in the year under review.

## The fund's exposure, extraordinary contributions and backstop financing

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In the end, the own funds and liquid assets determine the DGF's capacity for financing DGS compensation. Given that each quarter's contributions are collected in the next quarter, the DGF was capable of financing aggregate compensation under the DGS of some EUR 800 million as at year-end 2017. This amount would suffice to compensate for bankruptcies of half of the banks in the Netherlands.

If more banks or a major bank should fail, the DGF's own funds will be inadequate. Extraordinary contributions are then charged from the other banks to secure the financial resources needed. DNB sets the amount of the extraordinary contributions payable by the banks. The DGF can enter into agreements to secure third-party funding, given the likelihood that extraordinary contributions are not instantly available or are inadequate. The volume of the extraordinary contributions charged is limited to 0.5% of a bank's guaranteed deposit base each year, which currently provides a contribution potential of EUR 2.3 billion.

To bolster the DGF's financing capability, it initiated the conclusion of a EUR 3 billion credit facility agreement in 2017 from a consortium of four Dutch banks, which are ABN AMRO Bank, ING Bank, Rabobank and Volksbank. This credit line has enabled the fund to expand its financing capacity to over two-thirds of all Dutch banks. Its term is five years, with two consecutive one-year renewal options. Pursuant to the law, any credit agreement concluded by the DGF is subject to the minister of Finance's approval. Approval of the draft agreement is currently pending.

## Investment policy, risk management and audit

With a view to prevailing market conditions, the Management Board decided in 2016 to hold the DGF's financial resources in a current account with DNB for the foreseeable future. This minimises the credit risk associated with investment. Interest paid on this account is currently less negative than that paid on available market-based alternatives featuring a conservative risk profile commensurate with the nature of the fund. The Management Board in 2017 confirmed its decision to hold the fund's financial resources in a current account with DNB for the foreseeable future. If market rates should increase in the next few years, allocation to a longer maturity bond portfolio will become more attractive. Given the nature of the DGF, the principle underlying its investment policy is that investments must be made in low-risk liquid assets.

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Acting in its support capacity, DNB developed a simulation model in 2017 at the DGF's request to provide insight into the risk and return characteristics of investment alternatives. The Management Board approved the model in the second quarter of 2017. It uses the model to assess the DGF's investment policy from time to time. The model simulates both the fund's pay-out liabilities related to bank failures and the volume of its own funds, which is comprised of contributions, net interest income and market value changes of investments. It is used to determine the likelihood, for specific investment alternatives, of the fund having to pay out more than its resources permit. Based on the simulation model, the volume of the credit facility was set at EUR 3 billion.

As a rule, the Management Board discusses investment policy twice a year.

It has outsourced the DGF's accounting responsibilities 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 three lines of defence principle.

The Management Board has instructed an independent auditor to audit the financial statements and report on its findings. See the independent auditor's report on page 20.

## The DGF's governance

The DGF is represented by the Management Board, which, in addition to the Chair, has two members. DNB appoints, remunerates, suspends and dismisses them, as well as establishes who of them is appointed Chair and who Secretary.

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

- Jan Marc Berk - Chair
- Bert Boertje
- Martin Heerma

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

DNB supports the DGF in performing its task, providing the resources and services needed, including keeping its financial accounts. A collaboration protocol sets out the support which DNB provides. With respect to the management of its financial resources, the DGF entered into an asset management agreement with DNB in 2016.



## Outlook

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A key future development is the minister of Finance's intention to require the DGF to operate under a treasury banking regime (*schatkistbankieren*). Expectations are that more details will be announced in the spring of 2018 in this regard. A fundamental precondition for the DGF is that its own funds must be readily available once the DGS is activated with respect to a failing bank. If the DGF should be instructed to operate under a treasury banking regime, the Management Board's charter and the cooperation agreements which it has concluded with DNB will need to be amended accordingly.

The DGS Directive provides for cooperation between the European deposit guarantee schemes. With regard to a deposit held at a branch office in another Member State, DNB must be able to provide the DGS authority in that Member State with relevant information. Such information enables the authority to make payments to the holders of the deposits held at the branch office. The Dutch DGS will remain responsible for such payments, and they will be funded by the DGF. Conversely, the other Member State's DGS will be responsible for making payments with respect to deposits held at Dutch branch offices of a bank from that Member State, and the foreign DGS will finance those payments.

European cooperation is arranged through a series of agreements, and the first bilateral agreement was entered into with the German DGS in February 2018.

At the European level, limited progress was made in negotiations about the European deposit guarantee scheme (EDIS), which is to contribute to the completion of the banking union. EDIS will not replace the national DGSs, but will fully or partially consolidate funding on a European level. If agreement is reached on EDIS, national guarantee funds will gradually be replaced in whole or in part by a European fund in due course. Negotiations still being under way, no statement can be made about the impact this might have on the DGF's current tasks.

Signatures of the Management Board members

Amsterdam, 12 March 2018  
The Management Board of the Deposit Guarantee Fund

Jan Marc Berk	Bert Boertje	Martin Heerma
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# Financial statements

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

EUR thousands

	31-12-2017	31-12-2016		31-12-2017	31-12-2016
<b>Assets</b>			<b>Liabilities</b>		
1 Current account deposits	800,429	336,967	1 Own funds	915,196	448,009
2 Accounts receivable	115,047	111,136	2 Accounts payable	280	94
2.1 Contributions	115,015	111,122			
2.2 Other receivables	32	14			
<b>Total assets</b>	<b>915,476</b>	<b>448,103</b>	<b>Total liabilities</b>	<b>915,476</b>	<b>448,103</b>

## Statement of income and expenditure for 2017

EUR thousands

	2017	2016
<b>Income</b>		
1 Contributions	469,280	448,328
2 Reimbursement of costs	41	35
<b>Total income</b>	<b>469,321</b>	<b>448,363</b>
<b>Expenses</b>		
3 Interest expenses	-2,092	-319
4 Bank charges	-1	-
5 Other costs	-29	-21
6 Independent auditor's fee	-12	-14
<b>Total expenses</b>	<b>-2,134</b>	<b>-354</b>
<b>Result for the year</b>	<b>467,187</b>	<b>448,009</b>

Statement of cash flows for 2017

EUR thousands

	2017	2016
<b>Income</b>		
1 Cash flows from operations	463,462	336,967
1.1 Result	467,187	448,009
1.2 Movements in accounts receivable	-3,911	-111,136
1.3 Movements in accounts payable	186	94
2 Cash flows from investments	-	-
3 Cash flows from financing	-	-
<b>Movements in current account deposit</b>	<b>463,462</b>	<b>336,967</b>

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

1. 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 Code<sup>4</sup> was applied correspondingly. In addition, the Dutch Accounting Standards (*Richtlijnen voor de Jaarverslaggeving – RJ*) were applied to the extent relevant to the DGF.

Accounts receivable and payable

The accounts receivable as current account balances and other accounts receivable, as well as payables are presented at their nominal amounts. Transactions in accounts receivable and payable are recognised as at the settlement date.

Income and expenses

Income and expenses are recognised in the financial year in which they are received or paid.

2. Notes to the balance sheet

Assets

1. Current account deposits

This item, amounting to EUR 800,429,000 as at 31 December 2017 (31 December 2016: EUR 336,967,000), 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

Accounts receivable, amounting to EUR 115,047,000 as at 31 December 2017 (31 December 2016: EUR 111,136,000) include two items:

- 2.1 Contributions: EUR 115,015,000 (31 December 2016: EUR 111,122,000). These are the contributions receivable for the fourth quarter of 2017.
- 2.2 Other receivables: EUR 32,000 (31 December 2016: EUR 14,000). This concerns the reimbursement to be received of costs to be incurred<sup>5</sup>. As at 31 December 2017, these were EUR 20,000 in legal fees and EUR 12,000 in audit fees.

<sup>4</sup> The relevant sections of the *Kzbo* are listed in the *Bbpm*, Bulletin of Acts, Orders and Decrees 2015, no. 433  
<sup>5</sup> DNB reimburses the DGF for the costs incurred. Pursuant to the Financial Supervision Funding Act (*Wet bekostiging financieel toezicht*), DNB will recover these costs from the financial sector.

Liabilities

1. Own funds

The result for 2017 was added to own funds in full. It mainly comprised the contributions collected and interest expenses paid. Following appropriation of the result, own funds stood at EUR 915,196,000 as at 31 December 2017 (31 December 2016: EUR 448,009,000).

EUR thousands

	Total own funds	Individualised component	Collective component
Balance as at 31 December 2015	-	-	-
Profit for the year 2016	448,009	224,158	223,851
Balance as at 31 December 2016	448,009	224,158	223,851
Profit for the year 2017	467,187	234,478	232,709
Balance as at 31 December 2017	915,196	458,636	456,560

Own funds are held in an individualised and a collective component. The basic contribution paid by each bank accrues as its individual balance. Combined, the balances paid by the banks make up the reserve fund’s individualised component (31 December 2017: EUR 458,636,000). The reserve fund’s collective component (31 December 2017: EUR 456,560,000) comprises the combined risk-based contributions paid by the participating banks. The negative return of EUR 2,092,000 (31 December 2016: EUR 319,000) on the fund’s financial resources and the bank charges of EUR 1,000 (31 December 2016: nil) were allocated to the two fund components on a pro-rata basis.

Own funds were not used to make DGS payments in 2017. The Wft<sup>6</sup> describes exhaustively for which purposes DNB may request the DGF to apply its own funds.

2. Accounts payable

Accounts payable, amounting to EUR 280,000 as at 31 December 2017 (31 December 2016: EUR 94,000). These are EUR 248,000 in interest expenses (31 December 2016: EUR 80,000), EUR 20,000 in legal fees (31 December 2016: nil) and EUR 12,000 in audit fees (31 December 2016: EUR 14,000).

6 Section 3:259a of the Wft

### 3. Notes to the statement of income and expenditure

#### 1. Contributions

Income from contributions was EUR 449,280,000 in 2017 (2016: EUR 448,328,000).

This amount mainly comprises the banks' contributions paid in the four quarters of 2017.

The population of banks whose deposits are guaranteed under the DGS changes. Branch offices are converted into subsidiaries or vice versa from time to time, and other cross-border changes are also conceivable. Pursuant to the DGS rules<sup>7</sup>, if a bank or a part thereof discontinues its participation in a country's DGS and joins another country's DGS, the first DGS must transfer the contributions received during the twelve months before the discontinuation to the second DGS on a pro rata basis. Within this context, the DGF received EUR 7,000 from and paid EUR 4,000 to deposit guarantee funds in other EU countries.

#### 2. Reimbursement of costs

DNB reimburses the DGF for the costs incurred, which were EUR 41,000 in 2017 (2016: EUR 33,000). Pursuant to the Financial Supervision Funding Act (*Wet bekostiging financieel toezicht*), DNB will recover these costs from the financial sector. DNB will reimburse the DGF for the costs detailed under "Other expenses" and "Audit fees" for 2017.

#### 3. Interest expenses

The DGF owes interest at the deposit facility rate on the current account deposits held with DNB. DNB charged interest at -0.4% throughout the period (2016: -0.4%). The interest expenses were EUR 2,092,000 in 2017 (2016: EUR 319,000). The increase in interest expenses was entirely caused by the growth in funds held in current account.

#### 4. Bank charges

The DGF is charged a fee of EUR 1,000 for holding funds in current account.

#### 5. Other costs

The Management Board paid EUR 20,000 in fees for legal advice about backstop funding in 2017. EUR 9,000 was paid in fees and charges for the use of bank accounts and payment systems (2016: EUR 21,000).

DNB supports the DGF in performing its task, providing the resources and services needed, including keeping its financial accounts. As agreed between DNB and the DGF, DNB reimburses<sup>8</sup> the costs involved in these support activities directly. They are not charged to the DGF.

<sup>7</sup> See Article 14(3) of the DGS Directive, part of which was transposed to Dutch law in Section 29.20 of the *Bbpm*.

<sup>8</sup> Pursuant to the Financial Supervision Funding Act, DNB will recover these costs from the financial sector.

## **6. Independent auditor's fee**

The fee of the independent auditor amounts to EUR 12,000 (2016: EUR 14,000). This relates solely to the audit of the financial statements.

## **7. Workforce**

The DGF does not employ any staff, as DNB enables it to perform its statutory task by providing staff and other resources.

## **8. 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. At present, their positions on the Management Board are:

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

The DGF 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.

## **9. Related parties**

The DGF works closely with DNB, which administers the DGS and supports the DGF in the adequate performance of its task. As it administers the DGS, DNB also decides when the DGF is deployed.



## 4. Notes to the statement of cash flows

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The statement of cash flows on page 12 has been prepared using the indirect method.

### 1. Cash flows from operations

Cash flows from operations of EUR 463,462,000 (2016: EUR 336,967,000) can be broken down as follows:

- 1.1 Operational result: EUR 467,187,000 (2016: EUR 448,009,000).  
This is the result as stated in the statement of income and expenditure.
- 1.2 Movement in accounts receivable: EUR -3,911,000 (2016: EUR -111,136,000).  
This concerns a movement in contributions receivable (EUR -3,893,000) and other accounts receivable (EUR -18,000) as explained in item 2 under "Assets" of the notes to the balance sheet.
- 1.3 Movement in accounts payable: EUR -186,000 (2016: EUR 94,000).  
This concerns a movement in interest payable (EUR 168,000) and other accounts payable (EUR -18,000) as explained in item 2 under "Liabilities" of the notes to the balance sheet.

The current account held with DNB is considered a cash equivalent.

### 2. Cash flows from investments

There were no cash flows from investments.

### 3. Cash flows from financing

There were no cash flows from financing.

## Appropriation of the result

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 Deposit Guarantee Fund

Jan Marc Berk

Bert Boertje

Martin Heerma

# Other information

## Independent auditor's report

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To the Management Board of the Deposit Guarantee 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 Deposit Guarantee Fund in Amsterdam.

In our opinion, the financial statements set out in this annual report fairly present the financial position of the Deposit Guarantee 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 Deposit Guarantee 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 Deposit Guarantee 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.

The Management Board should disclose events and circumstances that may cast significant doubt on the Deposit Guarantee 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 Deposit Guarantee 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 Deposit Guarantee 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 Deposit Guarantee 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 Deposit Guarantee 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.

- 22 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



