

Annual report for 2016 Deposit Guarantee Fund

(extended financial year beginning 26 November 2015)

Deposit Guarantee Fund
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Report of the Management Board

The Report of the Management Board has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*) and the applicable Dutch Accounting Standards (*Richtlijnen voor de Jaarverslaggeving*). The period under review runs from 26 November 2015 to 31 December 2016, which is an extended financial year.

Establishment of the Deposit Guarantee Fund

De Nederlandsche Bank N.V. (DNB) administers the Deposit Guarantee Scheme (DGS), which protects bank deposits and hence helps ensure financial stability. Directive 2014/49/EU on deposit guarantee schemes (a recast of the old DGS Directive) was transposed into Dutch law in late 2015. A major resultant change was the creation of a reserve fund to provide for the DGS' ex ante funding. This is why the Deposit Guarantee Fund (DGF) was set up on 26 November 2015¹, as a legal entity under public law, established in Amsterdam.

Creation of the reserve fund

The Decree on Special Prudential Measures, Investor Compensation and Deposit Guarantees under the Wft (*Besluit bijzondere prudentiële maatregelen, beleggerscompensatie en depositogarantie Wft – Bbpm*) provides that banks must contribute to the reserve fund. Banks have paid quarterly contributions to the reserve fund since the first quarter of 2016. DNB sets their contributions.

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. The reserve fund's target level equals 0.8% of the banks' combined deposit base, or around EUR 4 billion, which should be achieved on 3 July 2024². At year-end 2016, it stood at EUR 448 million.

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.

The reserve fund has an individualised and a collective component. Both components have their own specific purpose and comprise contributions paid by the banks.

¹ The statutory basis of the Deposit Guarantee Fund is Section 3:259a of the Financial Supervision Act (*Wet op het financieel toezicht – Wft*).

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

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- 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.

Legal structure

The DGF 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 6503532 0000.

Activities

The DGF's task is to administer the financial resources needed to operate the DGS.

Compensation which DNB pays out to depositors under the DGS is charged to the DGF. The DGF ensures that any compensation awarded is immediately made available for payment. The DGF can also be used to fund resolution instruments. If DNB deploys a resolution instrument, it may make an amount available which is charged to the DGS, subject to specific conditions³.

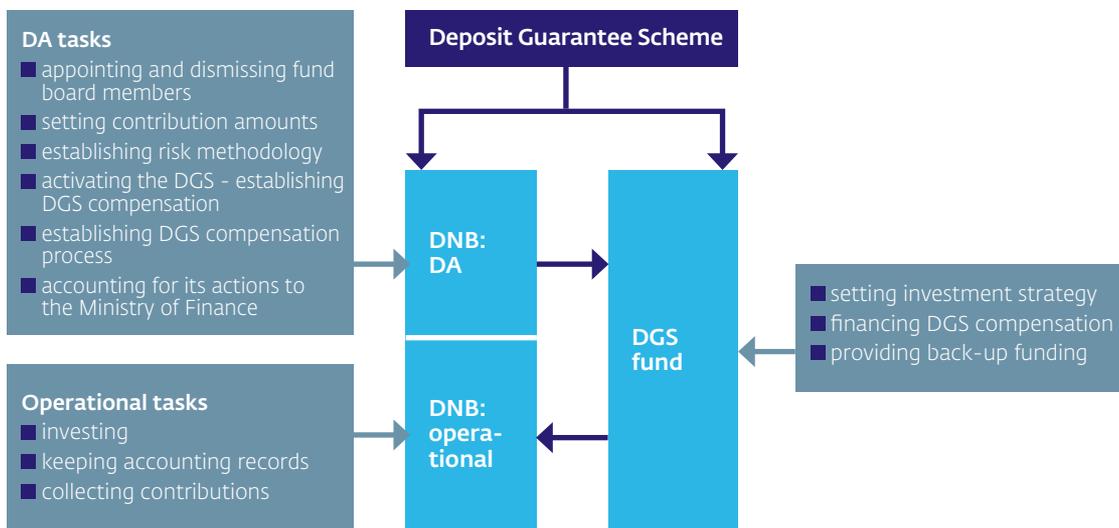
No amounts were withdrawn from the reserve fund to finance the DGS or deploy resolution instruments in this first year under review.

If the reserve fund proves inadequate, extraordinary contributions are charged 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 in the event that the extraordinary contributions are not instantly available or are inadequate. It started exploring the relevant options for procuring a credit facility in 2016.

DNB supports the DGF in performing its task, providing the resources and services needed, including keeping and safekeeping 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. Figure 1 illustrates the Deposit Guarantee Scheme's activities, distinguishing between the tasks DNB performs in its capacity of DGS authority and in providing the DGF with operational support.

³ Pursuant to Section 3:265e of the *Wft*.

Figure 1 Set-up of the Deposit Guarantee Scheme



Risk management

With a view to prevailing market conditions, the Management Board decided in 2016 to hold the reserve funds' financial resources in a current account with DNB for the foreseeable future. This minimises the risks associated with investment. The Management Board started drawing up an outline for the DGF's investment policy in 2016, for which DNB prepared an analysis framework, acting in its support role. The DGF's investment policy will be detailed further in 2017, working from the principle that investments must be made in low-risk liquid assets.

Audit

Insofar as the DGF runs any operational risks, DNB's Internal Audit Department assesses the design, existence and operating effectiveness of the internal controls. It reports its findings to the Management Board. The Management Board has instructed an independent auditor to audit the financial statements. See the independent auditor's report on page 22.

Management Board

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.

Remuneration policy

DNB's Governing Board has decided not to remunerate the members of the DGF's Management Board. Accordingly, in the year under review, the members of the DGF's Management Board did not receive any remuneration for their work, nor did DNB provide them with any loans, advances or guarantees.

Details of board and staff members

At the time of the adoption of the 2016 financial statements, the members of the Management Board were:

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

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

Outlook

Expectations are that more than EUR 400 million in DGF contributions will be collected annually over a period of nine years. In this way, a fund will be established equalling 0.8% of the combined guaranteed deposit base, which is expected to be around EUR 4 billion.

Activities in 2017 will concentrate on detailing the fund's investment policy further and securing a credit facility from Dutch banks.

Amsterdam, 26 April 2017

The Management Board of the Deposit Guarantee Fund

Financial statements

Balance sheet as at 31 December 2016 (following appropriation of the result)

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Thousands

Assets	31-12-2016 EUR	Liabilities	31-12-2016 EUR
1 Current account deposits	336.967	1 Reserve fund	448.009
2 Accruals and prepaid expenses	111.136	2 Payables	94
2.1 Contributions	111.122	2.1 Other payables	94
2.2 Other receivables	14		
Total assets	448.103	Total liabilities	448.103

Statement of income and expenditure for 2016

(beginning 26 November 2015)

Thousands

	2016 EUR
Income	
1 Contributions	448.328
2 Reimbursement of costs	35
Total income	448.363
Expenses	
3 Interest expenses	-319
4 Other costs	-21
5 Independent auditor's fee	-14
Total expenses	-354
Result for the year	448.009

Statement of cash flows for 2016 (beginning 26 November 2015)

Thousands

	2016
	<u>EUR</u>
1 Cash flow from operating activities	336.967
1.1 <i>Result</i>	448.009
1.2 <i>Movements in accounts receivable</i>	-111.136
1.3 <i>Movements in accounts payable</i>	94
2 Cash flow from investments	-
3 Cash flow from financing	<u>-</u>
Movements in current account deposit	336.967

Notes to the balance sheet as at 31 December 2016 and the statement of income and expenditure for 2016 (beginning 26 November 2015)

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 Code⁴ 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 those included in the items "Contributions" and "Other accounts receivable", as well as payables included under "Other accounts 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. Positive results are included only to the extent realised at the balance sheet date. 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 Dutch Tax and Customs Administration has concluded that the DGF does not qualify as an entrepreneur for VAT purposes, need not withhold any payroll tax or social security contributions and is not liable to pay corporation tax.

4 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 336,967,000 as at 31 December 2016, 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 2016, this was -0.4%.

2. Accruals and prepaid expenses

Accruals and prepaid expenses totalled EUR 111,136,000 as at 31 December 2016. They include two items:

- 2.1 Contributions: EUR 111,122,000. These are the contributions receivable for the fourth quarter of 2016.
- 2.2 Other receivables: EUR 14,000. This concerns the reimbursement to be received of costs to be incurred⁵, which, as at 31 December 2016, consisted of the budgeted independent auditor's fee of EUR 14,000.

Liabilities

1. Reserve fund

The result for 2016 was added to the reserve fund in full. It mainly comprised the contributions collected. Following appropriation of the result, the reserve fund stood at EUR 448,009,000 as at 31 December 2016. Its financial resources are held in an individualised and a collective component. The reserve fund's individualised component (31 December 2016: EUR 224,317,000) comprises balances attributed to each individual bank, which are accumulated from their basic contributions. The reserve fund's collective component (31 December 2016: EUR 224,011,000) comprises the combined risk-based contributions paid by the participating banks. The negative return (31 December 2016: EUR 319,000) on the fund's financial resources was allocated to the two fund components. The reserve fund was not used to make DGS payments in 2016. The *Wft*⁶ describes exhaustively for which purposes DNB may request the DGF to apply the reserve fund's financial resources. The DGF may not apply the reserve fund's financial resources for any other purposes.

⁵ 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.

⁶ Section 3:259a of the *Wft*.

2. Accruals and income collected in advance

Accruals and income collected in advance totalled EUR 94,000 as at 31 December 2016. They include the following item:

- 2.1 Other payables: EUR 94,000. These are interest payable on the current account deposits (EUR 80,000) and the budgeted independent auditor's fee (EUR 14,000).

2. Notes to the statement of income and expenditure for 2016 (beginning 26 November 2015)

1. Contributions

Income from contributions was EUR 448,328,000 in 2016. This amount comprises the banks' contributions paid in the four quarters of 2016.

2. Reimbursement of costs

DNB reimburses the DGF for the costs incurred. Pursuant to the Financial Supervision Funding Act, DNB will recover these costs from the financial sector. For 2016, DNB reimburses the costs of an application for a BIC code and a SWIFT account (2016: EUR 21,000) and of the budgeted independent auditor's fee (2016: EUR 14,000).

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 in which funds were deposited. The interest expenses were EUR 319,000 in 2016.

4. Other costs

The DGF incurred start-up expenses relating to the applications for a BIC code and a SWIFT account, and for making system modifications. They totalled EUR 21,000. DNB supports the DGF in performing its task, providing the resources and services needed, including keeping and safekeeping its financial accounts. As agreed between DNB and the DGF, DNB bears the costs involved in these support activities directly, without charging them to the DGF.

5. Independent auditor's fee

The budgeted fee of the independent auditor amounts to EUR 14,000, and it only relates to the audit of the financial statements.

Independent auditor's fee

Thousands

	2016
	EUR
Audit of the financial statements	14
Other audit services	0
Advisory services	0
Other non-audit services	0

6. Financial risks and risk management

The DGF's financial resources are held in a current account with DNB. Its risk management is described in more detail on page 6.

7. Workforce

The DGF did not employ any staff in 2016.

8. Remuneration of the members of the Management Board

When the DGF was set up, one temporary Management Board member was appointed:

- Barend van Amerongen

The position of temporary Management Board member was discontinued when the following members were appointed to the new Management Board on 4 July 2016:

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

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 DGF's Management Board did not receive any remuneration. There were no loans outstanding to members of the Management Board as at 31 December 2016.

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.

10. Appropriation of the result

Appropriation of the result

Thousands

	2016 EUR
Addition to the reserve fund	448.009

3. Notes to the statement of cash flows for 2016 (beginning 26 November 2015)

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

1. Cash flows from operations

The cash flows from operations (2016: EUR 336,967,000) can be broken down as follows:

- 1.1 Operational result: EUR 448,009,000.
This is the result as stated in the statement of income and expenditure.
- 1.2 Movement in accounts receivable: EUR -111,136,000.
This concerns a movement in contributions receivable (EUR -111,122,000) and the reimbursement for the independent auditor's fee yet to be received (EUR -14,000) as explained in item 2 under "Assets" of the notes to the balance sheet.
- 1.3 Movement in accounts payable: EUR 94,000.
This concerns a movement in interest payable (EUR 80,000) and the independent auditor's fee yet to be paid (EUR -14,000) 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.

Events after the balance sheet date

There were no notable events after the balance sheet date.

Appropriation of the result

The Management Board has added the result for the 2016 financial year to the reserve fund.

Signing of the financial statements

Amsterdam, 26 April 2017

The Management Board of the Deposit Guarantee Fund

Bert Boertje

Jan Marc Berk

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 2016 set out in the annual report

Our opinion

We have audited the 2016 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 reserve fund as at 31 December 2016 and the result for the extended 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 2016;
2. The statement of income and expenditure for 2016 (beginning 26 November 2015);
3. The statement of cash flows for 2016 (beginning 26 November 2015); and
4. The notes to the balance sheet as at 31 December 2016 and the statement of income and expenditure for 2016 (beginning 26 November 2016)

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 (*Controleprotocol 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 – VI/O*) 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:

- Report of the Management Board
- Other data

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 the *Kzbo* and 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 the *Kzbo*, Part 9 of Book 2 of the Dutch Civil Code and Dutch Standard on Auditing 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the Report of the Management Board and the other information, as required by Part 9 of Book 2 of the Dutch Civil Code.

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 the *Kzbo*, 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.

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- 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, 26 April 2017
Deloitte Accountants B.V.

drs. R.A. Spijker RA

