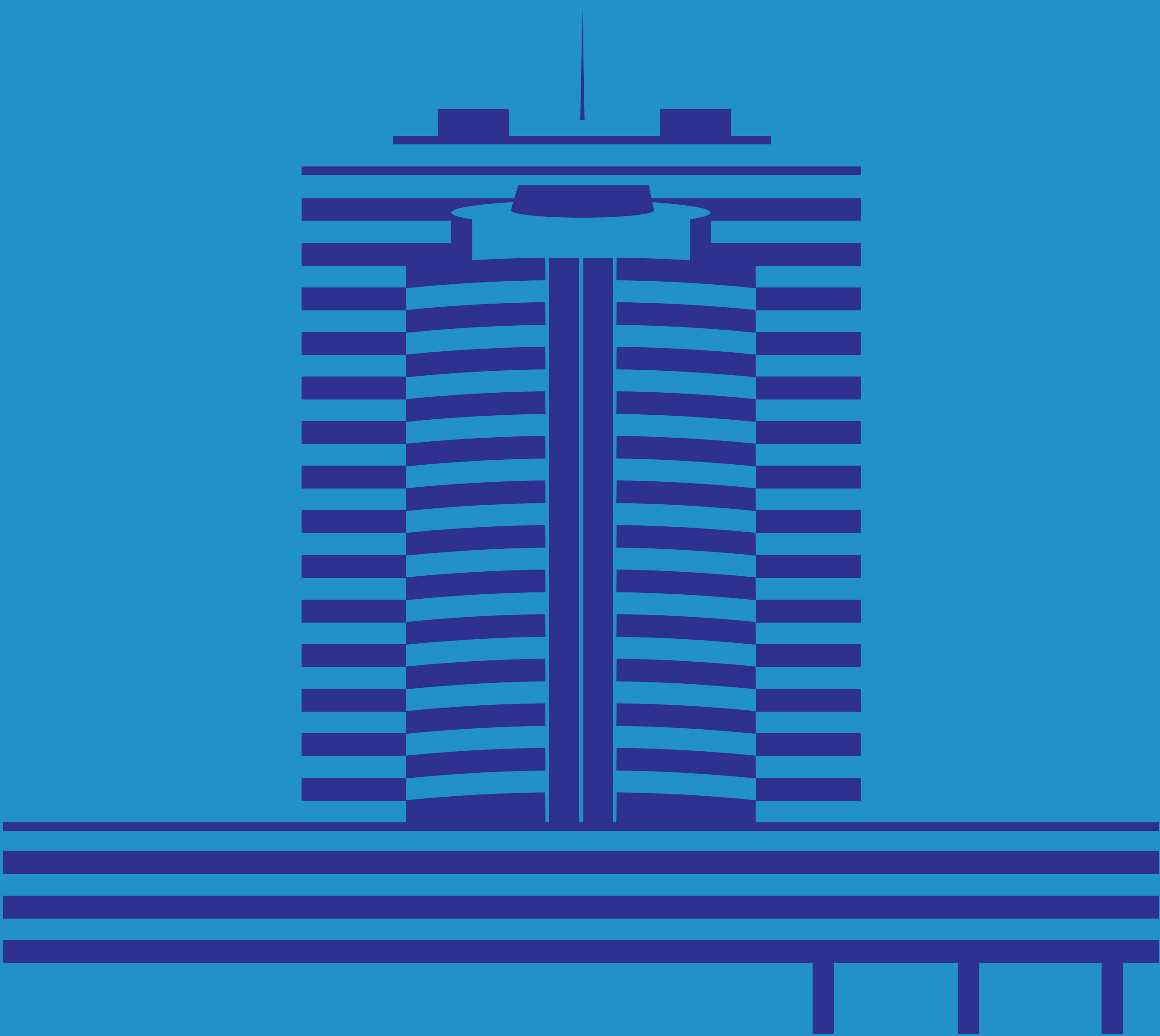

2015 Annual Report

DeNederlandscheBank

EUROSYSTEEM

Working on trust

DNB seeks to safeguard financial stability and thus contributes to sustainable prosperity in the Netherlands.

To this end, DNB operates as an independent central bank and supervisor to ensure:

- price stability and balanced macroeconomic development in Europe, together with the other central banks of the Eurosystem;
- a shock-resilient financial system and a secure, reliable and efficient payment system;
- strong and sound financial institutions that meet their obligations and commitments.

By issuing independent economic advice, DNB strengthens policies aimed at its primary targets.

De Nederlandsche Bank N.V.
2015 Annual Report

Presented to the General Meeting of Shareholders held on 23 March 2016.

DeNederlandscheBank

Central bank and prudential supervisor of financial institutions

PO Box 98, 1000 AB AMSTERDAM
Westeinde 1, 1017 ZN AMSTERDAM
Tel. +31 20 524 91 11
www.dnb.nl
Email: info@dnb.nl

ISSN: 1566-7200

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Gross domestic product (GDP), used to express quantities in some tables and charts, is GDP at market price unless stated otherwise.

Legend
0 (0.0) = the figure is less than half of the rounding used or nil;
blank = a figure cannot logically occur or the data are not reported (to DNB);
. = no data available.

Rounding
Figures may not add up due to automatic rounding per series; rounding per table means that there is not always a smooth transition between tables.

Governing Board, Supervisory Board, Bank Council and Employees Council

From left to right: Jan Sijbrand, Klaas Knot, Frank Elderson and Job Swank

At the adoption of the 2015 Financial Statements, the Governing Board, Supervisory Board, Bank Council and Employees Council of De Nederlandsche Bank were composed as follows:

Governing Board

President: Klaas Knot (1967, Dutch, economics, end of first term: 2018)

Executive Director: Jan Sijbrand (1954, Dutch, mathematics, end of first term: 2018)

Executive Director: Frank Elderson (1970, Dutch, Dutch law, end of first term: 2018)

Executive Director: Job Swank (1955, Dutch, economics, end of first term: 2018)

Secretary-Director: Nicole Stolk (1969, Dutch, history and Dutch law)

Company Secretary: Menno Deurloo (1976, Dutch, Dutch law and insurance studies)

The allocation of responsibilities among the members of the Governing Board and the Secretary-Director is represented in the organisation chart on DNB's website.

Supervisory Board

Chair: Wim Kuijken (1952, Dutch, economics, end of first term: 2019)
Member of the Remuneration and Appointments Committee.
Member of the Audit Committee.

Vice-Chair: Jaap van Manen (1950, Dutch, economics, end of second term: 2018)
Chair of the Supervision Committee.

Secretary: Bert van Delden (1941, Dutch, Dutch law, end of third and last term: 2016)
Member of the Supervision Committee.
Member of the Bank Council on behalf of the Supervisory Board since 2004.

Other members:
Feike Sijbesma (1959, Dutch, medical biology and business administration, end of first term: 2016)
Chair of the Remuneration and Appointments Committee.

Kees Goudswaard (1955, Dutch, economics, end of first term: 2016)
Chair of the Audit Committee.

Margot Scheltema (1954, Dutch, international law, end of first term: 2019)
Member of the Audit Committee.
Member of the Supervision Committee.

Government-appointed member:
Annemieke Nijhof (1966, Dutch, chemical technology, end of first term: 2019)
Member of the Supervision Committee.
Member of the Bank Council since 2015.

Remuneration and Appointments Committee
Feike Sijbesma, Chair
Wim Kuijken

Audit Committee
Kees Goudswaard, Chair
Wim Kuijken
Margot Scheltema

Supervision Committee
Jaap van Manen, Chair
Bert van Delden
Annemieke Nijhof
Margot Scheltema

Other positions held by the Governing Board and Supervisory Board members are stated on DNB's website.

Alexander Rinnooy Kan resigned as member and chair of the Supervisory Board on 1 June 2015. He was succeeded as chair on the same date by Wim Kuijken, who in turn was succeeded as government-appointed member on the same date by Annemieke Nijhof. Annemiek Fentener van Vlissingen also resigned from the Supervisory Board on 1 June 2015. Margot Scheltema joined the Supervisory Board on 1 September 2015.
Femke de Vries resigned as Secretary-Director on 1 October 2015. Nicole Stolk was appointed Secretary-Director on 1 February 2016. Menno Deurloo was appointed Company Secretary on 1 March 2015, succeeding Louisa van den Broek.

Bank Council

Chair: Arnoud Boot
Professor of Corporate Finance and Financial Markets at the University of Amsterdam.

Other members:
Bert van Delden
Member of the Supervisory Board.

Annemieke Nijhof
Government-appointed member of the Supervisory Board.

Hans de Boer
Chair of VNO-NCW.

Chris Buijink
Chair of the Dutch Banking Association.

Harry Garretsen
Professor of Economics and Dean at the University of Groningen.

Ton Heerts
Chair of FNV.

Nic van Holstein
Chair of VCP.

David Knibbe
Chair of the Dutch Association of Insurers.

Maurice Limmen
Chair of CNV.

Albert Jan Maat
Chair of LTO Nederland.

Kick van der Pol
Chair of the Federation of the Dutch Pension Funds.

Michaël van Straalen
Chair of MKB-Nederland.

Representative of the Ministry of Finance:
Hans Vijlbrief, Treasurer General.

On 1 June 2015, Annemieke Nijhof joined the Bank Council in her capacity as government-appointed member of the Supervisory Board, succeeding Wim Kuijken. On the same date, Albert Jan Maat and Kick van der Pol were reappointed as members of the Bank Council for a third and a second term of four years, respectively, in their capacity as Chair of LTO Nederland and Chair of the Federation of the Dutch Pension Funds, respectively. On 1 September 2015, Nic van Holstein was appointed member of the Bank Council in his capacity as Chair of VCP (succeeding Reginald Visser). On 1 January 2016, David Knibbe was appointed member of the Bank Council in his capacity as Chair of the Dutch Association of Insurers (succeeding Marco Keim).

Employees Council

Eleonora van Erp
Johan de Feijter
Lineke Galama
Saideh Hashemi
Steven Jonk
Nico Kloosterman (Chair)
Miriam Kraal (Chair)
Jan Meinster
Jerry Rijmers
Elizabeth Rosheuvel
Paul Suilen
Marjolein van der Vlugt
Ingrid Voorn
Peter Wagelmans
Jos Westerweele
Sandra Koentjes (professional secretary)

Introduction by the President

Introduction by the President

International developments: uncertainty prevails

The world is holding its breath for 2016. Developments in the world economy in 2015 were mixed. The global economic recovery was generally weaker than expected. This was primarily due to disappointing growth in emerging economies. However, growth in Europe did not disappoint. And in Europe, the Dutch economy's recovery continued to pick up pace. It is now a question of waiting to see how this recovery will continue. Global economic growth prospects for 2016 are substantially lower than they were twelve months ago. According to the International Monetary Fund's latest estimate, the global economy will grow by 3.4% in 2016, down 0.6 of a percentage point on last year's estimate. This is due to growing doubts about the strength of the US economy, the effectiveness of Japan's policy to reinvigorate its economy, and developments in China and other emerging market economies. The challenge for Europe is to push through the necessary economic reforms while dealing with political pressures such as reform fatigue, the refugee crisis and the UK's referendum on its membership of the EU.

Growth in China is dependent on a successful economic transformation. China faces the challenge of reducing accumulated economic imbalances following years of high credit growth and over-investment. This includes high levels of debt, a saturated housing market and overcapacity in construction-related sectors. The banking sector is vulnerable through loans to these sectors and indirect guarantees to the shadow banking system. Potential growth in the Chinese economy is also under pressure from population ageing and the misallocation of capital. Against this backdrop, the authorities are attempting to reorientate the economy towards a slower, but more sustainable and consumption-driven growth trajectory. Sharp corrections in the stock market, the outflow of renminbi-denominated assets and the currency's steady depreciation in the past period have not instilled confidence in this process. A hard landing in the transition to a lower growth trajectory presents a significant downward risk to the world economy.

Emerging economies are under pressure. Oversupply and the economic slowdown in China have led to a sharp drop in the price of raw materials. Major exporters of raw materials such as Russia and Brazil have been severely affected by this development. Monetary policy normalisation in the United States has also contributed to reduced inflows and the depreciation in value of many emerging market currencies. Potential growth in countries such as Brazil, Russia and Turkey has at the same time been affected by lagging reforms and political tensions. Another area of concern in this respect is the high level of debt owed by businesses in various emerging economies (often in foreign currency), coupled with falling profitability. This has combined with worsening credit conditions and falling exchange rates to produce a toxic cocktail, which makes it increasingly more difficult to repay loans in foreign currencies.

Developing countries are not immune to these effects. This relates to the various vulnerabilities in their own economies. The levels of government, non-financial corporation and household debt have on balance risen in the last decade. Protracted low interest rates have caused asset managers in search of higher returns to turn towards high-risk investment. Reduced financial market liquidity has resulted in higher volatility. The pace and intensity of US monetary policy normalisation is in addition surrounded with uncertainty. The continuing geopolitical problems are also a source of unrest for the financial markets. One conceivable scenario is a broad-based and sharp slowdown in emerging economies, which leads to a significant rise in risk aversion on global financial markets. This could have substantial effects for developed economies. However, if this scenario does not materialise, growth in developed countries this year could accelerate to just below 2%.

The European economy is getting back on track. The euro area has shown 11 consecutive quarters of growth. Since mid-2014, the European economy's rate of growth has exceeded estimated structural growth. Further growth is expected in 2016, although this is most likely to be lower than the 1.7% growth that the ECB forecast in December 2015. Particularly the major countries where reforms have stalled, such as France and Italy, performed disappointingly. Spain and Ireland, which have a lot of ground to catch up, have pulled up the average growth rate. Germany and the Netherlands have made moderate progress. It was again a turbulent year for Greece, in which it took the new Greek government quite some effort to make progress with its creditors. It is, however, positive that the financial markets continue to regard Greece as an isolated case. The risk premiums on government paper remain at unprecedented low levels.

The rate of inflation in the euro area is expected to remain low for some time. As a result of the continued decline in the price of oil, HICP inflation could fall back into slightly negative territory in the first half of 2016. At the same time, core inflation – which excludes volatile components such as energy and food prices – remains relatively modest at under 1%. This remains under the long-term average of 1.4% and is partly due to the modest wage growth coupled with the slow economic recovery. There are two sides to the low rate of inflation. On one hand, a world with high nominal debts is problematic as it reduces the repayment capacity of economic agents in relation to a world in which inflation is higher. On the other hand, low inflation boosts purchasing power. The latter effect is generally prevalent in the euro area. The positive effect on the economy is more significant for energy-importing economies, as the low rate of inflation is largely due to low energy prices. There are no indications of deflation, whereby consumers delay purchases in anticipation of lower prices. Quite the contrary, the economic recovery in the euro area is to a significant extent driven by consumption.

The added value of continued quantitative easing (QE) in Europe is lessening. Partly as a result of the QE policy, interest rates in Europe remain very low. QE drives down financing costs for banks, households, businesses and governments in the euro area, and has a downward effect on the exchange rate. This supports economic growth. Monetary policy is reaching its limits. Further expansion of the asset purchase programme is putting increasing pressure on the prohibition on monetary financing. This also results in undesired side-effects, such as bubble formation, an unhealthy search for yield, the rollover of problem loans, inequality of assets and an addiction to low interest rates. At the same time, the marginal effectiveness of further QE in reaching the inflation target is declining. Another undesirable side-effect is the reduced incentive for governments to lower their debts and push through structural reform. The accommodative monetary policy will only buy time to address the underlying problems. Governments should use this time to, for example, bring the budget balance and national debt in line with the agreements in the Stability and Growth Pact (SGP).

QE has resulted in greater balance sheet risks for DNB. This is partly because the balance sheet has increased as a result of the asset purchase programmes under QE. The risk to DNB of the situation in Greece is set to remain high, even though it is largely covered by government guarantees. At the same time, the low interest rate environment is expected to put DNB's profitability under pressure in the coming years. DNB generates income on its own investments and monetary operations, and this is expected to decline because of the low interest rate environment. This is particularly true when interest rates remain low for an extended period of time, as the high yield items gradually roll off the balance sheet. However, it will also apply in a scenario with rising interest rates. DNB will then hold longer-maturity QE securities for which it receives low interest income, whereas it will have to pay a higher policy rate on deposits held by banks. In view of the increased credit and interest rate risk, DNB has been forced to make a provision.

Structural reforms continue to be necessary. Leaving aside Greece, it is too early for various European countries to conclude that the crisis is over. Cyprus, Portugal and Spain have returned to growth, but need to make up considerable ground. The economies of Italy and Portugal are struggling under the weight of government debts substantially exceeding 100% GDP. Furthermore, the financial sector seems to be vulnerable to the high number of non-performing loans. In general, economic growth and labour productivity are underperforming, the output gap is being closed too slowly and too little progress is being made with high – and in particular long-term – unemployment. Far-reaching structural reforms are needed to create a more stable Economic and Monetary Union (EMU) with a better investment climate.

Further European integration requires a balance between risk mitigation and risk sharing

European financial and economic cooperation has increased in response to the crisis. The European Stability Mechanism (ESM) has been established and the European Commission (EC) has taken on a greater role in harmonising Member States' macroeconomic and budgetary policy. Major steps have also been taken towards a banking union, with the introduction of the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and proposals for a European deposit insurance scheme (EDIS). The Five Presidents' Report has also proposed steps towards enabling a better-functioning EMU. The creation of a capital market is an essential part of this.

In the first year of the SSM, a major step was taken towards harmonisation of European supervision. The SSM constitutes a cross-border supervisory framework founded on effective cooperation between the ECB and the national supervisory authorities. Within the context of the SSM, the ECB exercises primary supervision over the 130 largest banking groups in Europe with the help of joint supervisory teams. The SSM involves the cooperation of ECB supervisors with national supervisory authorities. The ECB is also responsible for supervision of smaller banks. This supervision is primarily exercised by national supervisory authorities. Major strides have been taken to harmonise supervisory methodology. This has led to a more level playing field for European banks, better risk assessment for cross-border entities and a better insight for all the authorities involved in the solidity of European banks, wherever they are headquartered. The SSM therefore constitutes the cornerstone for further development of the banking union. This is an outstanding achievement, particularly in view of how rapidly the SSM was established.

A new step has also been taken in the move towards a European banking resolution framework. The European Single Resolution Mechanism (SRM) became fully operational on 1 January 2016, and the Banking Recovery and Resolution Directive (BRRD) was virtually implemented everywhere in the EU. The bail-in clause and European resolution will help break the mutual stranglehold that banks and governments became locked in during the financial crisis. In this respect, the Single Resolution Fund (SRF) provides a financial backstop under certain conditions. This also means resolution measures and decisions to promote resolvability, such as with regard to loss-absorbing capacity requirements, will begin to materialise and be felt in the sector.

One condition for an EDIS based on risk sharing is that the banks within the banking union start on an equal footing. A European deposit insurance scheme can be considered as the third and final part of the banking union, alongside the SSM and the SRM. The European Commission submitted a proposal for the design of an EDIS, outlining the gradual transition from national to European level contributions. Negotiations in this area began in 2016 at the start of the Dutch presidency of the European Union. Before sharing the risks within an EDIS, an equal starting position should be created. To this end, systematic differences that still exist between risks to an EDIS posed by banks from different Member States need to be reduced. During the debt crisis, national governments and banks held each other hostage due to excessive mutual claims and liabilities. However, this stranglehold has not been sufficiently loosened in all countries. Introducing risk weights and concentration limits at banks for holding government bonds would help accelerate the process. Another example is curbing banks' use of tax-deductible losses. In addition, it is crucial that the global standard for total loss-absorbing capacity (TLAC) is effectively implemented in Europe.

Also in a broad sense, policy coordination should keep step with risk sharing. Further European integration is desirable. In this respect, the symmetry must be preserved between community solidarity and risk sharing on the one hand, and European risk mitigation and reduced national sovereignty on the other. In the past period, accelerated European risk sharing has gained the upper hand over stronger policy coordination. Examples in this respect include the expanding balance sheets of central banks within the Eurosystem, the disbursement of funds from the ESM and the European Financial Stability Facility (EFSF) for programme countries, build-up of the SRF and the possible fund building within an EDIS. At the same time, coordination has been strengthened through the agreements of the 'fiscal six-pack' and the "fiscal compact", the amended SGP and the macroeconomic imbalances procedure (MIP). However, there are still regular delays in compliance with these strengthened prevention and correction mechanisms. New agreements are often not necessary; a great deal more progress would be made if there were better adherence to existing agreements.

The rules of the SGP merit better compliance. The European debt crisis has demonstrated that accession to the euro area does not absolve the need for prudent economic and budgetary policy. The Maastricht budget deficit and public debt rules play a key role in shaping budgetary policy in euro area countries. At the same time, it is difficult to deny that Member States have frequently made use of the possibilities for exceptions. During the period 1999-2014, Luxembourg was the only country of the current 19 euro area countries that managed to keep its budget deficit under 3% of GDP. Seven countries have failed to keep their budget deficit under 3% of GDP in over half of these 16 years. In 1999, 7 of the 19 euro area countries had a public debt higher than 60% of GDP. By 2014, this number had increased to 13. Only Belgium had a lower public debt in 2014 than in 1999. The SGP rightly offers countries scope to deviate from the rules under exceptional circumstances, such as the financial crisis. However, when the rules are systematically breached, the question arises of whether the framework allows for too many exceptions, or whether the Member States take the rules too lightly. The EC proposals which elaborate on the Five Presidents' Report, primarily offer technical solutions for this problem, such as the use of just one simple indicator and the creation of an advisory European Fiscal Board. There is nothing wrong with this as such, but the elephant in the room is the lack of political will for respecting existing rules.

Safety margins are necessary to prevent procyclical budgetary policy. In practice, euro area countries have a budgetary policy aimed at meeting the SGP rule to keep budget deficit to a maximum of below 3% of GDP. However, under the SGP countries are committed to achieving budgetary positions that are close to balance or in surplus. By interpreting 3% of GDP as a target, in periods of prosperity this requirement is barely fulfilled or not met at all, while in bad times there are significant budgetary overshoots. Safety margins regarding the European thresholds are therefore needed to prevent procyclical policy. The creation of a budgetary buffer prevents the need to push through austerity measures when economies are at their most vulnerable.

In addition to stronger fiscal discipline, further structural convergence is required to boost the EMU's resilience and growth potential. Various European countries have made insufficient progress in the area of economic reforms. The convergence process, by which less prosperous countries grow towards the level of the more prosperous countries, seems to have halted in the 12 original euro area countries. In Spain and Portugal convergence is stagnating, while in Italy and Greece the prosperity gap has even considerably widened. The causes include the weak institutions, rigidities in the labour and commodities markets, lean productivity growth and insufficient effective policy to tackle excessive lending. The results of the preventative macroeconomic imbalance procedure (MIP) are not yet promising enough in this respect. Of the 158 recommendations within the framework of the MIP issued by the EC to Member States in 2012-2014, substantial or full progress had been made for 5%, some progress had been made for 54% and no progress had been made for 41%. Not only does the limited adoption of recommendations cause economic damage to the Member State itself, it also has an impact on the economic potential of the euro area as a whole. Now that the effects of monetary instruments have been virtually exhausted, it is up to political efforts to increase levels of structural growth. Respecting the fiscal framework and the MIP is a key condition for fully leveraging the advantages of the EMU.

The Five Presidents' Report proposes the creation of a capital market union. Strengthening capital markets through diversification of different sources of funding generates economic growth and more employment opportunities and contributes to systematic stability. Cross-border integration of capital markets ensures a better risk-spreading and more private risk sharing, which allows better withstanding of asymmetric economic shocks. A well-integrated and deep capital market can facilitate the transmission of monetary policy in the euro area. One priority in this respect is the harmonisation and modernisation of insolvency law. This would allow Europe to free itself from the millstone of bad and non-performing loans, thereby making room for economic growth.

The Netherlands: use the recovery for the necessary reforms

Economic recovery continues in the Netherlands. Most macroeconomic lights are green in the Netherlands. After seven lean years of adverse economic developments the economy is now clearly picking up again. The positive sentiment is reflected by increased profits and capital buffers across the Dutch financial sector, as well as the successful flotation of ABN AMRO Bank, which had been nationalised at the outset of the crisis. The continued recovery also means that structural adjustments should be prioritised.

Export and consumption are developing favourably. Exports have already grown considerably in recent years, despite downwards pressure from the slump in world trade. The Netherlands has experienced few direct effects of the economic slowdown in China, due to the Dutch economy and financial sector's limited exposure to this country. However, it is certainly possible that the Netherlands will indirectly feel the consequences through the impact on other countries and on confidence. Following years of shrinkage and stagnation, domestic consumption has again increased considerably. Wage growth has contributed to this, but it is mainly a result of the drop in taxation and contributions. Low inflation (partly as a result of falling energy costs) and a lower compulsory pension contribution have had a positive effect on purchasing power. The continued drop in mortgage rates is also a relevant factor for home owners.

Investment is performing reasonably well, but is lagging behind in housing. On a macroeconomic level, there are no signs that business investment is flagging. Particularly automation and the 'servitisation' of manufacturing have led to a substantial increase in investment in ICT goods and intangible assets. As a result, the composition of the public capital stock is also changing. Residential investment has already been under pressure for a long time. However, following years of declining activity in the construction sector, partly due to falling house prices and economic headwinds, the sector is now recovering. Pressure on the housing market has also been exerted by immigration and housing of refugees.

The housing market is in recovery. After a period of declining prices, culminating in a nominal drop at the beginning of 2008 of some 20% (approximately 30% in real terms), in the last two years the market has again picked up. The significant fall in interest rates has played a key role in this respect. However, there are major regional differences, with house prices rising the most in Amsterdam. House prices have recovered less ground outside the Randstad area, where properties remain on the market for long periods. Some 900,000 mortgages are underwater, that is to say, the balance of these mortgage loans is higher than the fair market value of the property. The number of these underwater mortgages is falling. In view of the impact of house prices on household expenditure, the recovery of the housing market is a driving force behind the recovering economy.

Nevertheless, the housing market is still not satisfactory. The market comprises two segments: the owner-occupier market and the heavily-regulated rentals market. Both markets are to a significant extent driven by tax rules and subsidies. This is partly the reason why the rentals market lacks a well-developed middle segment, which significantly obstructs housing market mobility, and contributes to a skewed income-to-rent ratio and high mortgage indebtedness of Dutch households. DNB therefore advocates neutral tax treatment of owner-occupied housing and rented accommodation, further reduction of mortgage interest tax relief and the LTV limit (the maximum ratio of a loan's size to the value of the property), and an improvement in the functioning of the rentals market.

The rapidly-changing labour market calls for an amendment to regulations. The Dutch labour market is quickly becoming more flexible. There has been a strong increase in the number of flex workers and self-employed people. This could be due to both businesses and workers making a positive choice to pursue flexible employment. However, critical consideration must be given to the possibility that this choice is merely driven by tax arbitration and avoidance of social security contributions. In that case, regulations need to be modernised to stop workers from being unintentionally excluded from arrangements and to prevent the erosion of public services.

The economic recovery offers scope for further wage growth. The crisis has put significant pressure on wages in recent years, which has been a cause of stagnating consumption in the Netherlands. Since the mid-nineties, policy in the Netherlands has been for wage movements to keep step with labour productivity and inflation. However, wage developments have lagged behind recent profit improvement in various sectors. The labour-to-income ratio has therefore remained at a relatively low level. The high current account surplus is reflected in the business sector's savings surplus. Wages could therefore increase, where profit developments permit. Differentiated wage growth contributes to domestic spending and thereby growth.

Further reduction of tax incentives is desirable. There are high levels of borrowing (mortgages) and saving (pensions) among Dutch consumers, both of which are supported by tax incentives. Although these tax incentives have been reduced in recent years, they continue to exist. In recent decades this has led to very long household balance sheets. This makes banks and households vulnerable, particularly to developments in interest rates and on the housing market. It is accompanied by sharper fluctuations in house prices and the real economy. In other words, it strengthens the economic cycle (procyclicality), which is undesirable. The tax treatment of pensions, due to its effect on spending, has created an unnecessary brake on economic activity. Reducing tax incentives is therefore desirable, as well as a gradual reduction of the LTV limit to 90% for new mortgages, in accordance with the recommendations of the Dutch Financial Stability Committee (FSC).

Budgetary policy is prudent yet procyclical. The government pursues a prudent budgetary policy. It is not without reason that the Netherlands has regained its AAA status from all major credit rating agencies as of 2015. Nonetheless, budgetary policy is predominantly procyclical. The building of buffers in times of prosperity is insufficient. The downward trend of the budget deficit is now grinding to a halt, and the structural budget balance is deteriorating. This is an unwelcome development. It is also the case here that favourable economic times should be used to make structural adjustments. These should make the system more resilient to future setbacks, and – at least equally important – form the basis for further growth.

A small budgetary surplus in times of prosperity reduces the risk of procyclicality. Based on cyclical movements in the deficit, which in the Netherlands are fairly substantial at between 3% and 4% of GDP, the aim in times of economic upswing should be a surplus of approximately 1% GDP, in order to keep below the maximum deficit of 3% of GDP during times of economic downturn. This should also be considered against the backdrop of the Maastricht Treaty, which sets out nominal GDP growth of 5%, consisting of 3% real growth and 2% inflation. Medium term estimates for nominal growth are currently much lower – around 3.5% – and as a result a deficit of 3% of GDP will lead to a considerably higher national debt as a percentage of GDP than the agreed 60% limit.

The Dutch tax system is due for a comprehensive overhaul. The EUR 5 billion tax reduction package for 2016 and later years is in this respect a missed opportunity, as the accompanying structural reform of the tax system has remained limited. More far-reaching reform is desirable, as the current system of taxation places too great a burden on labour. This obstructs economic growth and employment. A simplified system for taxes and allowances, which would also smooth peaks in the marginal tax burden, is desirable.

Lower direct taxes can be combined with higher indirect taxes. A cut in wage and income tax can also be offset by broadening the VAT tax base, transferring certain products and services from a low to a higher rate of tax, and if necessary by a general increase in VAT rates. It is possible that the latter measure would push up inflation, but in the current economic climate this would be more of an advantage than a disadvantage. A reform of the tax system could also address uneven taxation of capital and loan capital, as well as the differentiated taxation of various types of assets such as savings, pensions and housing.

The refugee crisis brings costs as well as opportunities. The unprecedented influx of refugees from the Middle East and Africa coming to Europe to seek asylum is one of the largest challenges facing the EU in 2016. Although this is first and foremost a humanitarian issue, it also has consequences for the Dutch economy, which for that matter are difficult to precisely determine. The costs of taking in and housing refugees will initially predominate. However, after some time there will also be returns, depending on the degree to which the Netherlands succeeds in involving former asylum seekers in the workforce. The long-term effect could be positive, in view of the ageing Dutch population and the labour shortages this could entail. Policy focussed on rapid integration is crucial in this respect.

Towards a more sustainable economy ...

Sustainability is a key concept in terms of the economy and prosperity. It is an often-used term without a unique definition. DNB is primarily focussed on contributing to a balanced, sustainable economy and financial sector. The term sustainable follows on from the tasks established in the Bank Act concerning monetary and financial stability. After all, sustainable economic development is only possible through stability.

Sustainable economic development requires adequate buffers. In an increasingly integrating international environment, with greater benefits as well as risks, buffers have to be sufficiently large enough to absorb shocks. This applies to all sectors in the economy. Households require liquidity buffers to absorb fluctuations in income, and also for example the consequences of interest rate movements on their mortgage loans and other debts and house price developments. The government requires buffers to retain access to the capital market during economic downturns, to maintain the ratings that are important in this respect, and to meet European requirements for deficits and debt. Businesses require buffers to help them weather lean periods and to keep credit facilities open. And the financial sector requires buffers to be able to withstand stress on markets and in economies without losing investor and saver confidence.

DNB sees a role for itself as a catalyst. We take a close interest in the creation of sustainable prosperity and are committed to fostering debate on this subject. When balancing interests in this regard, DNB's approach is by no means solely confined to the financial and economic field. We will also consider the social and ecological aspects and look further than just the current generation.

Climate is a key element of the sustainability debate. A milestone in the fight against climate change was reached at the Paris climate conference in December 2015 when an agreement was reached to limit global warming to well below 2 degrees Celsius. DNB directs its efforts towards the economic side of the climate issue, such as the debate about the existence of a 'carbon bubble'. What is the value of untapped fossil fuel reserves, how large are the consequences of a possible depreciation in the value of assets related to these reserves, and what are the effects of this on financial institutions' exposures? It is important that financial institutions' risk management takes climate change into account, such as for example through climate-related stress tests.

In terms of controlling climate change, Dutch energy policy could focus more sharply on reducing CO_2. The options for this include a more effective carbon pricing regime. Thanks to a high energy intensity, CO_2 pricing can have relatively far-reaching effects on the economy in the Netherlands compared to other European countries. This calls for businesses to make strong commitments to conserve energy, and also to develop a vision on how different industry sectors can remain competitive in a future low-carbon economy. Timely efforts in the area of sustainable development can also deliver economic advantages, as it will facilitate access to growth markets.

Climate policy must be predictable and announced on a timely basis. This policy should be focussed on both discouraging CO_2 emissions as well as stimulating sustainable energy projects. To limit uncertainty for investors, it is important this policy is implemented consistently, and ad-hoc adjustments are avoided. Businesses can then gradually adjust their investment and therefore prevent excessive loss in value. To offer greater certainty, it can help if the government is committed to a long-term vision for energy transition, such as legally embedding the long-term objectives for climate policy.

Sustainability also plays a key role in our internal operations. We would also want to meet the objectives of corporate social responsibility (CSR) in the area of procurement, environment and energy, and to contribute to society through community projects. Our commitment to sustainability is illustrated through our efforts to use 100% sustainable cotton in banknotes. By applying coatings we have also been able to extend the life cycle of banknotes, and through agreements with the industry we have substantially reduced the polluting transport of banknotes.

Within the framework of CSR, we are also strongly committed to transparency. This primarily affects the area of our analyses, recommendations and actions. A growing number of Occasional Studies, DNBulletins and other publications outlining our position contribute to this, as well as the growing dialogue with the financial sector and with other interested parties. The attention for impact measurement has also increased strongly in recent years, and we provide external feedback in this area.

Financial education, access to financial services and consumer protection contribute to households' financial resilience. Financial knowledge and access to financial services is coupled with more prudent financial management within families, the building up of larger buffers and more evenly spread spending patterns throughout the life cycle. Financial literacy thus contributes to financial stability and to sustainable economic growth in both emerging and developed economies, and we therefore support various projects in this area. Lastly, our recently reopened visitor centre also contributes to financial education and knowledge concerning DNB's tasks and responsibilities.

... and a sustainable financial sector

A sustainable financial system requires adequate regulations and effective supervision. As the financial crisis has clearly demonstrated, a financial system cannot function without good rules. These rules must primarily be defined at international and European level in order to guarantee a level playing field. We have made significant progress in this respect. Regulations for the financial sector have in recent years been explicitly tightened worldwide. This appears to have triggered a certain amount of regulatory fatigue. However, more stringent regulations were urgently needed in view of overdue maintenance following the financial liberalisation which preceded the crisis. One area of concern is that the supervisory framework has become complex, which therefore leaves scope for streamlining. This applies for example to authorisation procedures, which new entrants consider to be complicated, time-consuming and costly.

The post-crisis reform agenda has been largely realised. As of 1 January 2014, banks had to comply with CRD IV and CRR requirements, based on the Basel III agreement. This was followed by the new Financial Assessment Framework (nieuw Financieel Toezichtskader – nFTK) for pension funds which entered into force on 1 January 2015, and the Solvency II Regime for Insurers at the beginning of 2016. The Basel Committee will continue to fine-tune rules for banks, particularly with regard to the use of internal models. For that matter, no significant increases in capital buffers are expected, even if the implications for individual banks may vary. Efforts are also being made to curb the preferential treatment of government debt so as to avoid providing the wrong type of stimuli.

Good regulations are pointless without effective supervision of compliance. Supervision has in recent years become more intrusive and decisive. It has also become more forward-looking. Capital and liquidity – the traditional indicators of financial institutions' health – are primarily backward looking: they reflect risks assumed in the past. However, this approach does not identify risks forming in the present. That is why more forward-looking methods of supervision have gained importance in recent years, such as the supervision of behaviour and culture, governance and integrity, and financial institutions' business models and strategies. One important lesson learned from the crisis has been that sound and ethical operational management is the cornerstone of a healthy and stable financial sector. Fit and proper tests of executive and supervisory board members constitute a key part of this type of supervision. The assessment procedure has recently been strengthened. There is greater clarity in procedures and enhanced visibility of the role of DNB's senior management. In addition, guarantees of legal certainty have been introduced. Later this year, an independent external committee, in cooperation with the AFM will conduct an evaluation.

Macroprudential supervision also received an impulse last year. As of 1 January 2016 new buffers were introduced for banks: systemic buffers for major institutions that present a relatively high level of risk for the financial system, and a countercyclical buffer that is primarily linked to credit growth. From an international perspective, systemic buffers have been set at a high level due to the relatively large and concentrated Dutch banking sector. In view of the modest growth in bank lending, the countercyclical buffer is still set at nil. DNB ascertains whether an adjustment in the buffers is required on a quarterly basis.

As supervision cannot always prevent problems occurring, in recent years efforts have been made to set up a resolution framework. Banks are already required to have recovery and resolution plans, and a framework of this type is being established for major international insurers. International agreement was reached about the buffers that global systemically important banks must maintain to continue their activities in the event of major problems. This TLAC standard further specifies the European rules for loss-absorbing capacity (MREL). The resolution remit will come to prominence in 2016, when the BRRD is implemented at national level and the Single Resolution Board (SRB) becomes fully operational. Recent cases of resolution in Europe (before the BRRD was implemented) show that there are challenges involved in actually making banks resolvable. In Italy, Greece and Portugal, the resolution funds were already used to resolve smaller institutions, and as a result they are now facing shortfalls. The SRB faces the challenge of finding a solution for the remaining vulnerabilities in the European banking sector. The high number of non-performing loans, particularly in Italy and Portugal, are striking in this respect.

Insurers in particular face major challenges. Insurers' business models are under pressure as a consequence of the low interest rates, the unit-linked insurance policies portfolio and the increased competition on the non-life market. The solution in this respect is further consolidation, cost savings and a comprehensive reorientation of the insurance business, which will also certainly entail that the sector can profit from innovations. The introduction of the general pension fund and variable pension benefits offer solace, but do not solve the problems in the life insurance sector. Under Solvency II, the new risk-based supervisory framework for insurers, financial vulnerabilities are indicated at an earlier stage. This makes timely adjustments possible. Furthermore, given the vulnerabilities in the insurance sector, an adequate recovery and resolution framework is not a superfluous luxury.

Recent years have seen important adjustments to make the pensions system more sustainable. After the implementation of the nFTK at the start of 2015, there are more possibilities for phasing in adjustments more gradually. The steady increase in the statutory retirement age that was agreed several years ago has also assisted the system's financeability. The calculation method for the Ultimate Forward Rate (UFR) has also been adjusted. The UFR forms part of the actuarial interest rate that pension funds use to calculate the value of future liabilities. This adjustment follows the recommendation by the UFR Committee and has led to a more realistic determination of pension funds' financial position. The insurance sector is poised to take a similar step, though this will be decided at European level.

Nevertheless, a more fundamental overhaul of the pension system is required. Pensions continue to be under significant pressure. The financial health of pension funds is largely determined by low interest rates, which fell further last year. As a result, many pension funds are again facing funding gaps. To recover, the funds are virtually fully dependent on surplus returns. This poses a risk and contributes to the urgent need to make the system future proof. The basic structure of a sustainable pension system published by the government provides for several solution approaches. Areas for attention in this respect are the need to produce clear and transparent asset rights of pension scheme participants and balanced risk-sharing. A better response to the requirements of young and old people is key in this respect. In light of the rapidly-changing labour market, in which there is a growing number of self-employed people, a broader pension savings obligation that matches their needs must be considered. Attention must also be paid to the macroeconomic stability risks attached to the sizeable Dutch pension scheme.

Examination of pension funds' investments contributes to the debate on sustainable investments. The Pensions Act states that pension funds must indicate in their annual reports how their investment policy has incorporated the environment and climate, human rights and social conditions. We entered into a dialogue with the industry about this area based on a study started in 2015. Sustainability has since been high on the pensions sector agenda. We want to use the findings of the study as a basis for stimulating the public debate on sustainable investments.

Technological innovation: new opportunities and risks

Technological innovation is expected to have a major impact on the financial world in the coming years. The sector does after all have a high number of fast-growing enterprises driven by financial technology (fintech), which supplement the traditional offer of financial products and services. The amount of venture capital invested in fintech is exponentially growing.

The most visible forms of innovation are in payment systems. This includes new methods of payment, such as via an app. Contactless payment (with a debit card or smart phone, without the use of a PIN code) is increasingly accepted in the Netherlands, and financial institutions are working on a system of 'instant payments'. This allows consumers and businesses to make payments 24/7, which are visible to the recipient within a matter of seconds. This system is expected to be operational in 2019. In the long-term, "blockchain" technology is expected to have a major impact. This and other forms of innovation are displacing existing forms of payment, including traditional cash. It is nonetheless desirable for the public to continue to use cash, unless special circumstances arise when no cash payments should be accepted, such as for security reasons.

Fintech initiatives are also being developed in sectors outside the financial industry. These include new forms of lending, such as crowdfunding and 'peer-to-peer lending'. These platforms are rapidly growing, even if their reach in the Netherlands is still limited compared to traditional bank lending. Another category relates to activities whose value is based on the use of smart algorithms and 'big data', such as automated financial advice (robo advisory services) and non-life insurers' use of sensors (the internet of things).

Fintech can have positive effects, but also poses new risks. Technological innovation makes the financial system more efficient and more diverse, particularly if it results in new entrants. On the other hand, established parties will have to renew their earning models to withstand the pressure from innovative players. This may entail financial stability risks, above all when it entails a rapid transition to a new situation. The use of big data and digitalisation of customer contact entails privacy and cybersecurity risks. Operational challenges can also arise through the assimilation of innovation in existing ICT systems. Market volatility can also increase if robo advisory services result in standardised financial advice.

DNB wishes to facilitate innovation while at the same time mitigate potential risks. To achieve this, we expand our knowledge of technological innovation and closely monitor developments. We also actively engage in dialogue with market parties, colleagues from other supervisory authorities, and legislators. Smooth coordination with the most important stakeholders, in both the Netherlands and abroad, assists in implementing effective policy. Lastly, we are taking steps to enhance our supervisory approach, such as in the authorisation process. Considerations in this respect include differentiated levels of authorisation, depending on for example the size of the enterprises. DNB and the Authority for the Financial Markets (AFM) have also established an innovation centre to deal with questions from market parties concerning policy and regulations. The aim in this respect is to contribute to a solid and at the same time dynamic and competitive financial sector.

DNB also applies innovation to its own business operations. This applies largely to the use of new technologies for data retrieval and analysis. We are also studying the possibilities that blockchain technology offers, in terms of both improving our own operating processes and to keep a finger on the pulse of market developments.

Final remarks

Today's major challenges call for a European approach. Issues such as monetary and financial stability, financial sector supervision and the sustainability of the economy, but also controlling climate change and the intake of refugees, do not stop at the Dutch border. Although national efforts are required, all these issues do in principle require an international approach. A growing number of decisions in this area are therefore taken at the European level, and Europe is also becoming more important in terms of implementing policy. For DNB this means an increasingly international focus and more intensive cooperation with central banks and supervisors abroad. The international dimension to these challenges and the need to seek European solutions underline the importance of the Dutch presidency of the EU in the first six months of 2016.

Towards a sustainable higher growth potential

1 Towards a sustainable higher growth potential

1.1 Introduction

The Dutch economy has emerged from the crisis and is currently going through a cyclical catch-up phase. In 2015 gross domestic product (GDP) grew by 1.9%, the largest increase seen since 2007. While growth is solid, the available pool of talents and labour is not yet used to its fullest extent. By improving this, among other measures, the economy must be put on a structurally and sustainable higher growth path, in the Netherlands and throughout the whole of Europe. Although the Dutch economy is largely catching up under its own steam, its open nature means that robust and sustainable developments in Europe are indispensable for higher structural growth. This presents Dutch and European policymakers with major institutional challenges. The five sections of this chapter set out DNB's vision in this respect.

Section 1.2 discusses the policy challenges involved in strengthening the Dutch economy and making Dutch households less vulnerable to financial shocks. It focuses on the tax treatment of mortgage loans and the pension system, as well as measures aimed at modernising the labour market. A more stable economic development also demands measures in the area of public finance. Section 1.3 argues that the smooth functioning of long-term budgetary policy requires an ambitious target for the fiscal balance. Section 1.4 zooms in on measures that should make the housing market and lending less procyclical and increase the resilience of the financial system. The latter will benefit from the European capital markets union, which contributes to achieving a diverse mix of lenders – something from which small and medium-sized enterprises will also profit. The final two sections address developments in the international arena. Section 1.5 discusses low global inflation rates and their consequences for conventional and unconventional monetary policies in the euro area. Concluding this chapter, Section 1.6 describes the challenges in further strengthening the European and Monetary Union (EMU) in institutional terms and providing a positive outlook for the euro area.

1.2 Challenges for the Dutch economy

In the aftermath of the crisis, long balance sheets containing large amounts of financial assets and high levels of debt created bottlenecks both for households and the economy as a whole. The number of underwater mortgages is still high, while domestic consumption has been held back by deleveraging. Reducing tax incentives relating to mortgage loans and pensions may strengthen the economy and provide households with more financial leeway. In addition, the labour market is in need of further modernisation.

1.2.1 Bottlenecks in household balance sheets

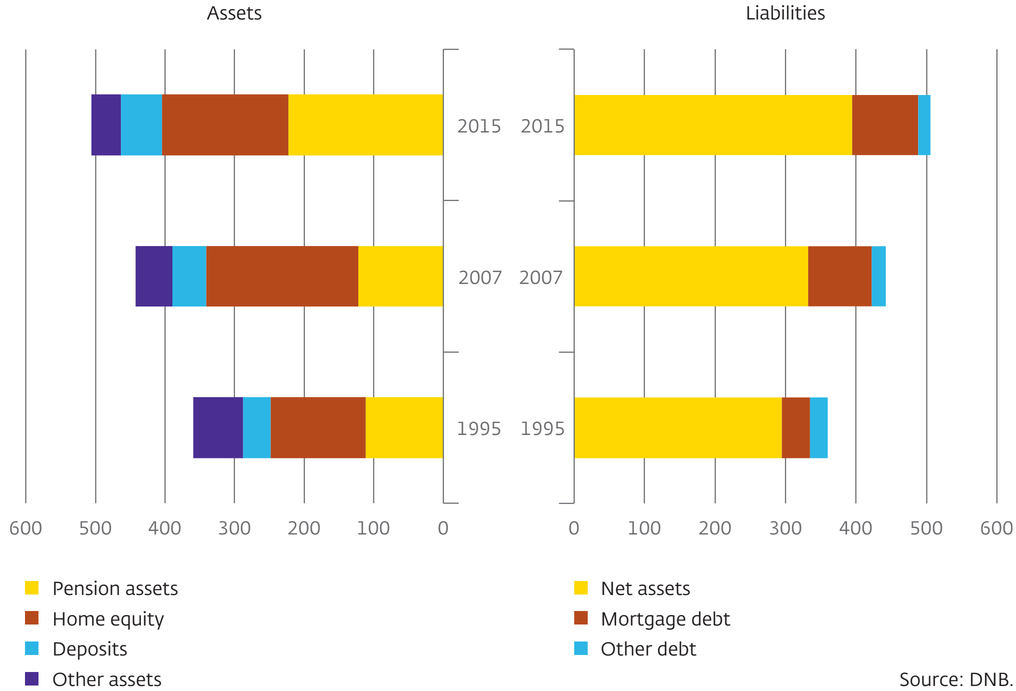
The Netherlands emerged from the economic crisis more slowly than many neighbouring countries. This is largely due to the long financial balance sheets of Dutch households, which have accumulated assets over the past decades. In 2015, their financial assets equalled nearly five times the Dutch GDP. At the same time, households also significantly accumulated debts, which grew to 111% of GDP in 2015. Most of this debt related to home loans.

The long household balance sheets are largely the result of government policy. In the housing market, tax incentives encourage households to purchase their homes using debt financing, while renting a home is not appealing or possible for many households. In addition, most employees build up a pension on a mandatory basis, and tax incentives play a major role in encouraging high targets in the area of pension accrual. The long balance sheets have made households and the economy as a whole vulnerable to shocks in asset prices. The drop in house prices resulted in over a million underwater mortgages in the years immediately after 2008. Furthermore, the low interest rates seen over the past few years have made pension insurance increasingly costly. The pension funds' average funding ratio fell from 144% in the fourth quarter of 2007 to 102% in 2015, despite the fact that pension assets rose by 101% of GDP (see Chart 1.1). This increase was fuelled by increasing yields of fixed-income securities on the back of the low interest rates. Moreover, pension contributions grew from EUR 25 billion in 2007 to EUR 34 billion in 2013, rising by 1.2 percentage points of GDP. These developments have weighed down relatively heavily on households' disposable incomes and spending.

In the past few years, the Dutch government took a number of measures aimed at curtailing tax incentives in areas of mortgages and pensions. These measures are insufficient, however. For many households, using debt financing to buy a home is still preferable to renting a home and accumulating savings in order to buy a home later, as is customary in other countries. In addition, amended tax rules that force first-time home buyers to pay off their mortgage loan in full create the risk that such households accumulate excessive savings in the long term, particularly if they also build up employee pensions that are high by international standards.

Chart 1.1 Balance sheets continue to grow

Percentages of GDP



Source: DNB.

Note: The figures for 2015 refer to those at the end of the third quarter of 2015.

Against this, there are growing numbers of self-employed persons, many of whom do not save enough for their pensions.

The recovery in the housing market seen since 2013 has mitigated the balance sheet problems of many households, thanks in part to a rebound in house prices and transactions on the back of low mortgage interest rates. This is reducing the number of underwater mortgages, albeit at a slow pace. In the pensions domain, the procyclical increase in pension contributions levelled off due to new supervisory rules. Tax incentives must be reduced further to achieve permanently shorter household balance sheets and make economic growth more stable. This is required most urgently in the area of mortgages. There is also room for further reducing government-subsidised pension accrual for high-earning employees, whereas additional savings would be welcomed for self-employed persons.

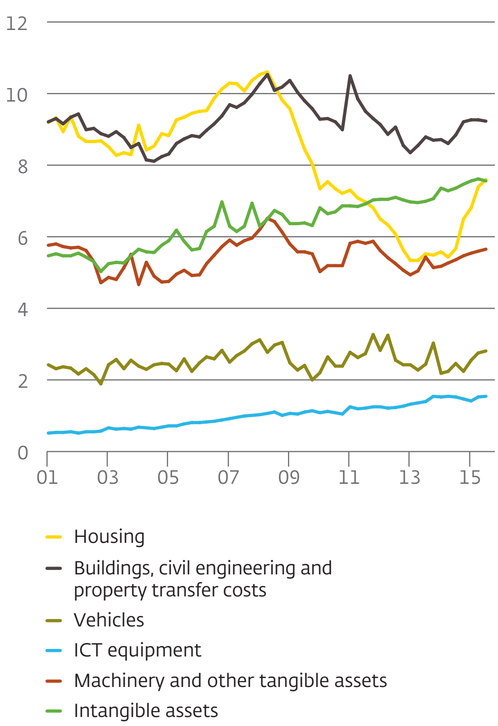
Over the past years, wages developed very moderately, limiting households' spending power and hampering deleveraging. In the first years of the crisis, the labour income share still increased, with poor labour productivity growth being due to labour hoarding. A turnaround occurred in 2013 and the labour income share is now below the long-term average. Viewed from a macroeconomic perspective, this implies that there is room for a wage push. Further support can be found in the high current account surplus, which largely ends up in a savings surplus in the corporate sector. The Dutch corporate sector's competitive position is reasonably solid. Corporate profits are below their pre-crisis peak, but above the long-term average. There are, however, wide discrepancies between sectors and individual enterprises in terms of profitability and other financial indicators. While taking these into account, a more forceful wage trend may support domestic dynamics, which can serve as another pillar under recovery in economic growth.

1.2.2 Non-housing investment held up well during the crisis

The fluctuations seen in the housing market also affect the movements in housing investments, which consist of housing construction as well as major maintenance work on homes and purchase costs of new and existing homes. The slump in the housing market cut real residential investment in half between 2008 and 2013 (see Chart 1.2).

Chart 1.2 Investments by type

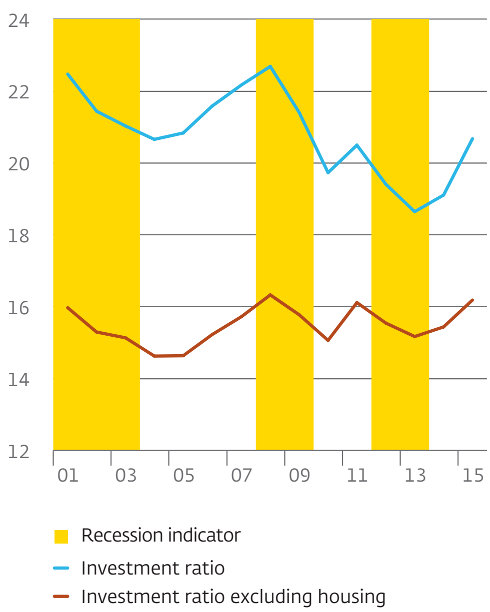
EUR billion; 2010 prices, seasonally adjusted



Source: Statistics Netherlands.

Chart 1.3 Investment ratio

Percentages of GDP, 2010 prices



Source: Statistics Netherlands.

Note: Gross investment as a percentage of GDP, 2010 prices.

They have meanwhile started to recover, but are nowhere near pre-crisis levels. While homes are needed as accommodation for the country's population, the volume of the housing stock is less indicative of the economy's growth potential than the stock of other capital goods. Since the crisis, there has been a substantial fall in total investments (i.e. including residential investment) as a share of GDP. Excluding residential investment, however, the investment ratio was stable (see Chart 1.3). Consequently, there seems to be no reason to be concerned about a decline in the investment ratio. Chart 1.2 provides a number of additional insights regarding investment. For example, investment in buildings, infrastructure, machinery and vehicles have remained relatively stable in real terms. By contrast, there was an increase in investment in ICT goods and intangible assets. During the period 2001-2014, investment in ICT goods rose in real terms by no less than 300%. Investment in intangible goods, such as software, databases and R&D, was included in statistics on investment only recently. This investment category was significant in 2001, and since then it has continued to grow. Today it is the third largest investment category, after investment in buildings and investment in infrastructure.

These shifts in investment are consistent with two global trends in production. First, all over the world production technology is becoming increasingly ICT-intensive. Second, the international division of labour is shifting. In the Netherlands, production activities are being shifted abroad, while Dutch businesses and organisations are focusing increasingly on services that support this global production process. Such services include commercial services, like product design, marketing, logistics and financial and legal services, as well as public services that contribute to the development of a healthy, well-educated labour force. As far as these activities are concerned, domestic investment in machinery and factory buildings is much less relevant whereas investment in ICT and intangible assets are particularly important.

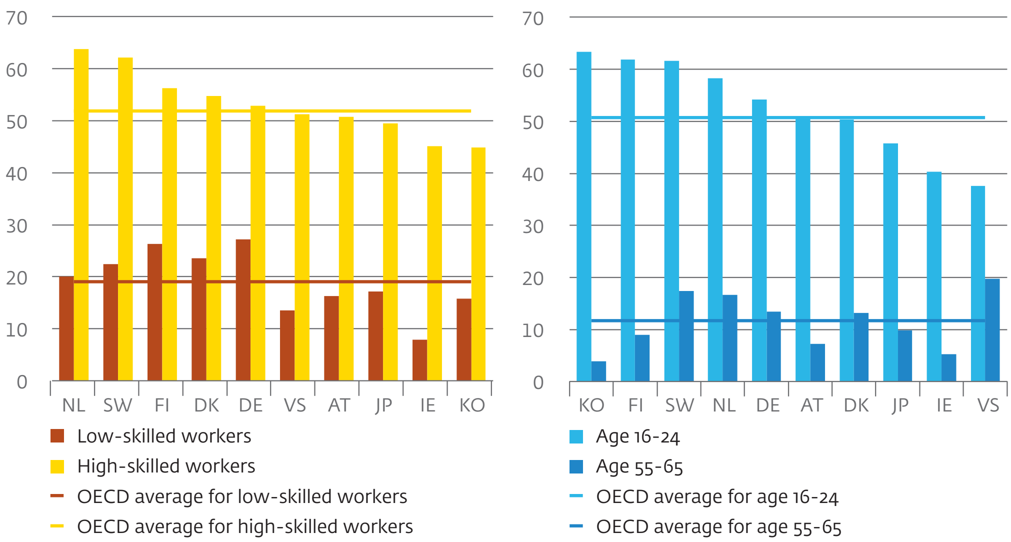
1.2.3 Challenges in the labour market

The changing production structure also has consequences for the labour market. Trends in both technology and the international division of labour are changing demand for labour among businesses. High-skilled employment continues to grow, whereas relative demand for medium-skilled workers, who often perform routine tasks, is slowly declining in relative terms. By contrast, low-skilled employment is relatively stable due to increased demand for support services. In addition, the importance of ICT skills is increasing across all sectors and professions. The average Dutch worker is well-equipped with such skills according to a large-scale survey held in various OECD countries, but the skill level is highly variable, in all countries. For example, Chart 1.4 shows that highly-skilled workers score much higher than lower-skilled workers and that there are substantial differences between the generations.

Chart 1.4 Good ICT skills

By skill level, reference date 2012

By age, reference date 2012



Note and source: Proportion of respondents who gained good scores for the use of digital technology, communication tools and networks for gathering and processing information, communicating with others and carrying out practical tasks (see OECD Skills Outlook 2013 for a definition).

Technological changes and the international division of labour are increasing productivity and prosperity. Government policy may be strengthened on various fronts to enable as many people as possible to benefit from this increase in prosperity. First, it is crucial that serious attention is paid to lifelong learning. Such learning often takes place within organisations, although good retraining facilities are also desirable given the shift in specialisations. Second, the relationship between permanent employment and flexible forms of work is due for a reappraisal. Labour market dynamics are currently driven primarily by temporary contracts, and the number of self-employed entrepreneurs has passed the one million mark. This flexible pool of workers is more attractive to businesses than standard employees, partly for reasons related to the law and taxation. In order for the labour market to operate efficiently, however, it is crucial that legal rules and tax rules do not determine the allocation of labour to an excessive degree. Finally, special attention needs to be paid to older employees in the next few years. Their participation rate has increased sharply in recent years, yet they hold a relatively weak position in the labour market. This is attributable to a wide range of factors, including insufficient skills, relatively high costs due to steep wage profiles and relatively high costs in the event of dismissal and incapacity for work. The government and social partners need to pursue a broad policy agenda in order to address these factors.

1.3 Trend-based fiscal policy demands an ambitious fiscal target

Although the Dutch government, under successive cabinets, has pursued a trend-based fiscal policy for many years, in recent decades fiscal policy has had the effect of reinforcing the economic cycle more often than it has dampened it. As insufficient buffers were built up during periods of economic growth, consolidation was necessary during the economic downturn, forced in part by European rules. An ambitious fiscal target that is actually met helps to avoid such procyclicality.

1.3.1 Trend-based budgeting in jeopardy

On paper, the Netherlands has pursued a trend-based fiscal policy since 1994. When a new government takes office, it sets a target for the structural deficit in the final year of its term of office and formulates a plan of expenditure and tax and social insurance contributions that is consistent with that target. During the government's term of office, additional cuts must be made if expenditure threatens to rise more quickly than initially budgeted. For the most part, expenditure windfalls are used to repay the national debt. By contrast, during the government's term of office tax revenues are able to move freely in line with economic growth. Such long-term, trend-based budgeting has proved valuable. It enables the government to use fiscal policy to absorb unforeseen blows in the economic cycle. Avoiding ad hoc policy also increases the quality of measures and contributes to a stable administrative environment.

However, trend-based budgeting is difficult in practice and was all too rare in recent years. Numerous consolidation packages introduced by successive governments and ad hoc coalitions with the aim of reducing the fiscal deficit to less than 3% of GDP with sufficient speed, as required by the European rules, are an example from recent memory. Sometimes the amount of time between such packages was just a few months. In contrast to this strict fiscal discipline during economic downturns, there has been a tendency to adopt a more relaxed fiscal stance during economic booms. At the start of the 21st century and during the run-up to the financial crisis, achieving and maintaining fiscal surpluses over several years proved impossible. This resulted, on balance, in a fiscal policy that made the Dutch economy more, rather than less, volatile over the past 20 years. According to recent research by the Netherlands Bureau for Economic Policy Analysis (CPB), between 1994 and 2015 the fiscal policy that was pursued had a dampening effect on economic performance in only four years; in the other years the policy was neutral or procyclical. Moreover, these four years were, without exception, years of recession. Sometimes it is possible to pursue an expansive fiscal policy when times are lean, but building up buffers during periods of economic growth has proved to be more difficult. Countries like Denmark, Sweden and Finland have been much more successful in this respect.

The procyclicality of fiscal policy is reflected in the make-up of measures related to revenue and expenditure. When savings need to be made in a short space of time, it does not take long for the emphasis to be placed on measures that are easy to achieve. And as increases in taxes and social security contributions can usually be introduced more quickly than expenditure cuts, measures relating to taxes and social security contributions reinforce the economic cycle relatively frequently (see Chart 1.5). Within the field of government spending, however, there are clear differences between various categories. In particular, those categories of expenditure in which cuts can be made relatively easily, turn out to be procyclical on a relatively frequent basis. These include, for example, spending on infrastructure, public administration and defence (see Chart 1.6). The relatively strong procyclicality of interest payments is due to the fact that interest rates on Dutch government bonds typically fall in times of economic adversity, so that interest payments lag behind GDP growth during bad times; this works the other way in good times. By contrast, expenditure on public services such as medical care and education tends to be countercyclical. Expenditure on unemployment benefit and income support is often countercyclical, not because of policy measures, but because such expenditure automatically moves in line with the economic cycle to a significant extent. Restricting fiscal adjustments to a small group of taxes and social security contributions and areas of spending probably has an adverse impact on the quality of public finances. Abrupt increases and decreases in taxes and social security contributions are associated with economic distortions and lead to policy turbulence. Reducing expenditure on infrastructure or public administration, for instance, and then increasing it again probably does not have a positive impact in terms of the quality of such expenditure.

Chart 1.5a Cyclicality of public spending

Changes in spending as a percentage of GDP

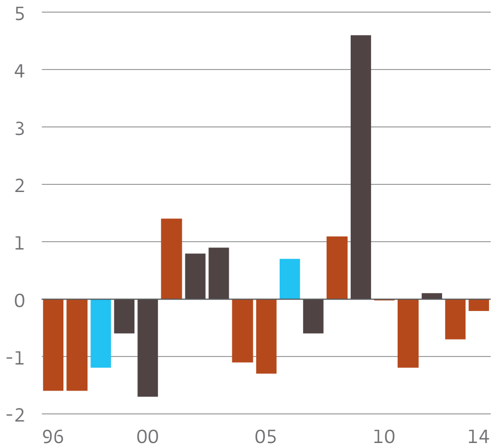
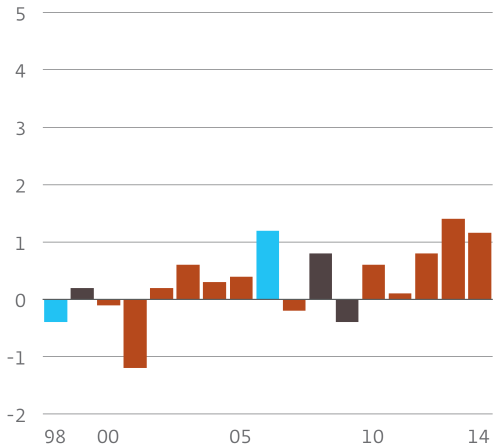


Chart 1.5b Cyclicality of measures related to taxes and social security contributions

Percentages of GDP

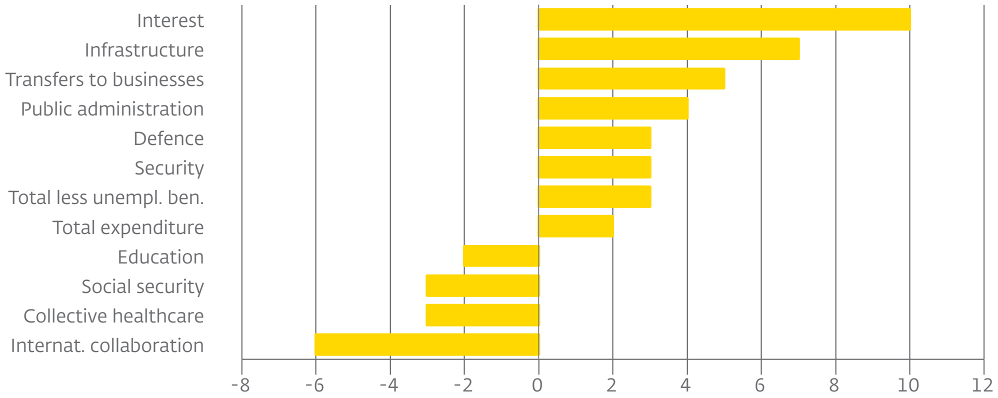


- Procyclical
- Countercyclical
- Neutral

Source: Own calculations based on figures from Netherlands Bureau for Economic Policy Analysis (CPB) and the EC.

Note: 'Neutral' means an output gap of between -0.5% and +0.5% of GDP.

Chart 1.6 Procyclicality of spending, 1995-2014
Percentages of GDP



Source: DNB's own calculations based on CPB figures.

Note: The horizontal axis shows the net effect of years of procyclical and countercyclical policies. A positive figure indicates that expenditure was procyclical on balance, while a negative figure indicates countercyclical expenditure on balance.

1.3.2 An ambitious fiscal target

The most obvious way of avoiding forced spending cuts during economic downturns is to keep the fiscal deficit within a safe range, that is some distance from the European deficit ceiling of 3%. This distance needs to be substantial, as, according to research by the European Commission among EU Member States, the Dutch budget is the most sensitive to cyclical movements. To provide an idea of the required range, Table 1.1 shows the deterioration in the fiscal balance during recent economic downturns. No adjustments have been made to compensate for the fact that in some cases consolidation measures introduced in response to a deterioration in the fiscal balance may have already been in the pipeline and therefore had the effect of curbing the overall deterioration. In four of the last six downturns, the fiscal balance deteriorated by more than 3% of GDP. On average, it deteriorated by 3.6% of GDP. In order to stay out of the European danger zone with any degree of confidence, it seems that a surplus target for periods of economic growth is almost inevitable.

An alternative to a sufficiently ambitious fiscal target that can be considered is the use of conservative starting points for expected GDP growth during the government's term of office. This will also help the fiscal balance to remain a safe distance from the 3% ceiling. The main disadvantage of using conservative starting points for growth, however, is that this creates artificial windfalls. Pressure to spend such windfalls can result in more volatile and rash expenditures, and this pressure becomes particularly strong as the following general elections approach. In view of this, an ambitious fiscal target is preferable.

Table 1.1 Deterioration in fiscal balance during economic downturns

Percentages of GDP

Peak		Low point		Difference between peak and low point
Year	**Fiscal balance**	**Year**	**Fiscal balance**	
1973	0.5	1975	-2.8	-3.3
1977	-0.8	1982	-6.2	-5.4
1985	-3.6	1987	-5.4*	-1.8
1993	-2.8**	1995	-4.3	-1.5
2000	1.2	2003	-3.0	-4.2
2008	0.2	2009	-5.4	-5.6

Note: Figures obtained from Statistics Netherlands and the CPB. Figures for years up to and including 1995 have not been revised.

* Adjusted for buy-out of subsidies to housing corporations.
** Adjusted for revenues from UMTS auction.

As shown above, pursuing good fiscal discipline has not always proved straightforward, particularly in times of economic growth. There are a number of measures that can help to safeguard discipline more effectively. First, the fiscal target should ideally be laid down in the law for an extended period of time, preferably with the support of a broad parliamentary majority. Doing this will make it unnecessary for every new government coalition to think about and negotiate a desirable target, and increases the likelihood that the target will truly serve as an anchor. Second, it can help to raise the visibility of the fiscal rules in the media, and thus encourage a public debate on compliance with those rules. To this end, fiscal rules need to be sufficiently intelligible and verifiable. For example, the expenditure frameworks could be combined to create a single coordinating framework. Third, placing expenditure on unemployment benefits and income support outside the expenditure frameworks will ensure that cyclical movements do not lead to procyclical expenditure measures in other areas.
A fourth option that can be considered is giving local authorities some scope to levy more tax, subject to specific conditions. There is a massive imbalance between local expenditure and local revenue in the Netherlands. If local authorities finance a larger proportion of expenditure themselves, they may look more critically at their expenditure. The government has already announced its intention to present a draft bill before the summer of 2016 that could mark the prelude to a EUR 4 billion increase in the municipal tax base as from 2019.

Finally, discretionary fiscal policy is not the only way in which the government contributes to greater economic volatility. The fact that a policy that encourages longer household balance sheets reinforces procyclical outcomes has already been discussed in Section 1.2. In order to reduce fluctuations in the economy it is therefore necessary to take a broader view that goes beyond fiscal policy. Looking to the future, a lower fiscal target may be sufficient if the Dutch economy becomes less volatile as a result of other institutional changes.

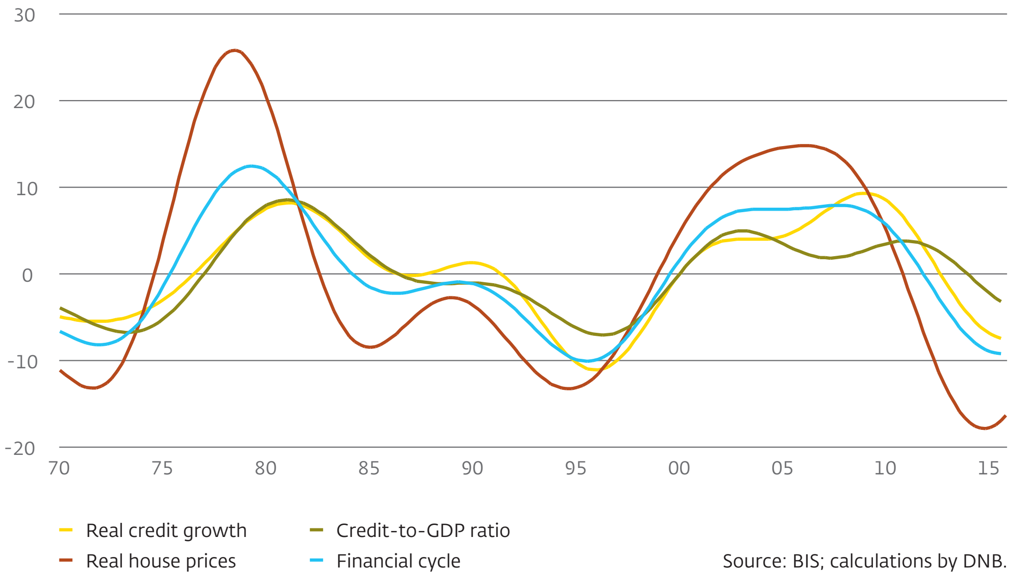
1.4 Financial developments and systemic risks

The downturn in the financial cycle has levelled off somewhat on the back of rising house prices. This offers opportunities for the introduction of structural measures aimed at making the housing market and lending less procyclical and increasing the resilience of the financial system. Also, a more diverse mix of credit providers can contribute to more stable lending, although it is important to be alert to new risks.

1.4.1 Downturn in financial cycle levels off

Financial crises are often preceded by excessive credit growth and sharp rises in real estate prices. A crisis is followed by a prolonged period of balance sheet strengthening, during which there is a decline or only a slight increase in lending and house prices. The financial cycle indicator summarises medium-term trends in credit growth and house prices and serves as an important indicator for the development of any systemic risks. Chart 1.7 illustrates the financial cycle and its individual components for the Netherlands.

Chart 1.7 Turnaround in financial cycle driven by house prices
Standardised deviation from trend



Source: BIS; calculations by DNB.

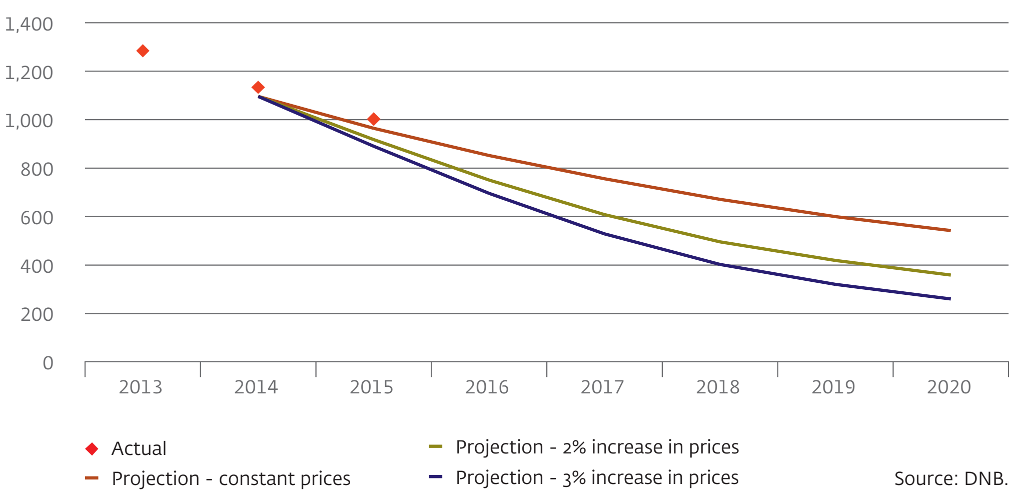
The steep downturn in lending and house prices, and hence in the financial cycle, lasted for years, but seems to be levelling off somewhat. This is almost entirely due to the increase in house prices, which amounted to 2.8% in 2015, its highest level in seven years. Low mortgage interest rates are a key driver of this trend. At the same time, however, bank lending to businesses and mortgage lending for house purchase are still receding. Moreover, the credit gap (i.e. the deviation of private sector credit from its long-term average) is still negative at -19% of GDP. This means that measures specifically aimed at slowing down the financial cycle – such as activation of the countercyclical capital buffer in the banking sector – are not needed at this stage. DNB has the option from 2016 onwards to use this measure to enhance the banking sector's resilience should systemic risks build up.

1.4.2 Measures aimed at increasing financial resilience of institutions and households

Structural measures have been taken in recent years to make systemically important financial institutions more resilient. For example, in 2014 additional capital buffers were introduced for ING (3% of risk-weighted assets), ABN AMRO (3%), Rabobank (3%) and SNS (1%). A systemic risk buffer of 1% was imposed on Bank Nederlandse Gemeenten (BNG Bank) in 2015, while the international supervisory authorities announced that the insurer Aegon was deemed to be systemically important.

Chart 1.8 Fewer underwater mortgages in the Netherlands

Number of underwater mortgages in the Netherlands (in thousands)



Source: DNB.

As mentioned in Section 1.2, the fact that households and the financial sector have long balance sheets constitutes a structural vulnerability for the Dutch financial system and the real economy. The problem of negative equity (mortgage debts in excess of home values) is a good example of this. This problem is gradually diminishing thanks to early repayment of mortgages and the recovery in house prices (see Chart 1.8). A structural further reduction in the LTV limit would help to make the housing market less procyclical and improve the financial resilience of households. The Dutch economy is picking up and the housing market is recovering, as a result of which any negative effects that deleveraging has on spending will be less damaging.

1.4.3 Towards a European capital markets union

A diversified mix of lenders is also beneficial for the stability of the financial system. Such a mix slows down the rate at which financial problems in one part of the system (e.g. banks) come to dominate the entire system. The aim of the European capital markets union is to make the financial system less bank-oriented and more capital markets-oriented. For instance, small and medium-sized enterprises could benefit from a capital markets union if a wider range of financing options were to become available, including improved access to venture capital.

This transition to more market orientation is already in progress. Recent years have seen rapid growth in certain types of non-bank financial institutions and activities. Research carried out by DNB into shadow banks illustrates that investment funds have grown at a particularly rapid rate. In the Netherlands, they have grown by an average of 10% a year since 2011. At the start of 2015, approximately one quarter of all corporate bonds issued in the Netherlands and the euro area were held by investment funds. That said, shadow banks, i.e. less heavily regulated parties outside the banking sector, hold total assets worth approximately EUR 207 billion, which is still only approximately one tenth of the total assets held by the Dutch banking sector.

The growth in non-bank financial institutions is also creating new risks. The main systemic risk in this respect is a scenario in which large numbers of investors decide to exit such funds, a so-termed run. A scenario of this kind may force the fund managers into selling assets in less liquid markets and, therefore, at discounts. This can in turn reinforce the impact of price shocks in the financial markets and cause losses for Dutch banks, insurers and pension funds. This risk has increased because of the worsening liquidity in certain segments of the financial markets. The causes of reduced market liquidity include the changing market structure, reduced levels of proprietary trading by banks and technological innovations, such as algorithmic and high-frequency trading. Moreover, the likelihood of herding increases, due to the use of similar risk models and passive investment strategies.

In order to counter these liquidity risks, fund managers need to take account of the possibility of a reduction in the tradability of those investments. Moreover, DNB wants to further reduce the risk of large-scale redemptions from investment funds by reaching international agreements on the macroprudential use of existing policy instruments, such as stress tests, leverage limits and liquidity requirements. International coordination by the Financial Stability Board (FSB) is crucial in this respect because investment funds easily move beyond national borders; the risks arising are therefore of a global nature.

1.5 Low rate of inflation and consequences for monetary policy in the euro area

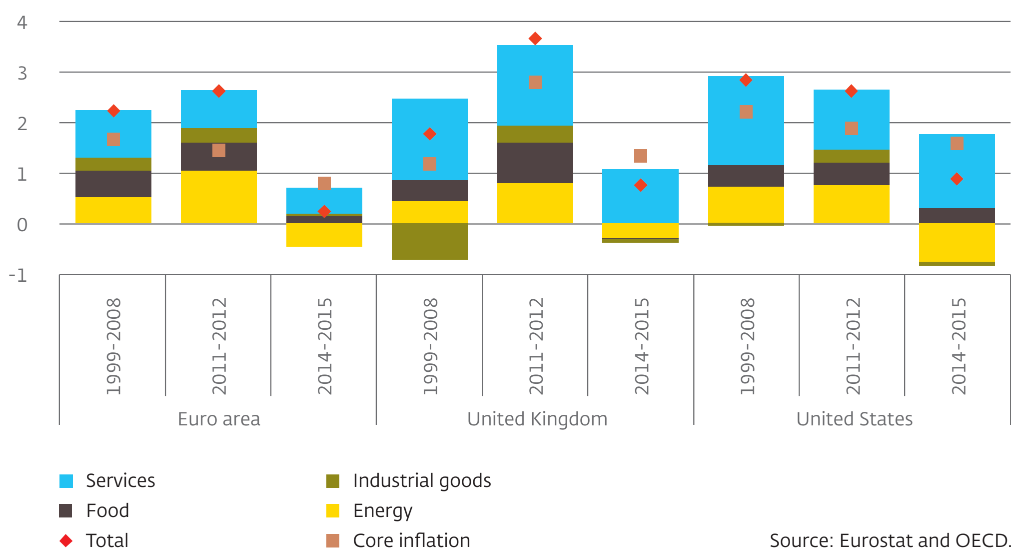
The global inflation rate is low, which, to a large extent, is directly attributable to lower energy prices. At the same time, the underlying inflationary pressures are also weak, which is consistent with the low level of wage growth due to cyclical and structural causes. In response to the persistently low inflation rate, there was a further easing of standard and unconventional monetary policy in 2015. The expansive policy has had a major impact on financial asset prices, although it does produce diminishing returns.

1.5.1 Low global inflation rate

In most developed economies inflation has fallen sharply since 2011. This development is largely related to lower energy prices (see Chart 1.9), and in particular to the sharp drop in oil prices since mid-2014. There is the likelihood of oil prices remaining low for some time, owing to factors such as the structural slowdown in growth in China, increased energy efficiency, the ending of sanctions against Iran and the changing role of OPEC. As a consequence of this, the contribution of the energy component to inflation is also likely to remain low for a considerable period. In Europe this can certainly be considered to be a positive supply shock,

Chart 1.9 Breakdown of inflation by component

Percentage changes and contributions in percentage points



Source: Eurostat and OECD.

but at the same time core inflation and service sector inflation also remain weak, which indicates low underlying inflationary pressures. It is crucial that underlying inflationary pressures in developed economies increase, so that the inflation targets of central banks can be achieved.

Low wage growth is a major cause of the low underlying inflation rate. In the euro area, low wage growth coincides with slack in the labour market. In the United States and the United Kingdom, unemployment has fallen sharply in recent years and is now almost back to pre-crisis levels. In these countries, too, wage growth failed to reflect falls in unemployment for some time, and even now wage growth is still markedly lower than in the years preceding the crisis. In the United States, wage growth (hourly wages in the private sector) gradually rose from the second quarter of 2015 to reach 2.4% in the fourth quarter, after fluctuating around the 2.1% mark for around two years. In the United Kingdom, following a short-lived rebound, wage growth (weekly wages in the private sector) fell from an average of 3.7% in the six months up to and including August 2015 to an average of 2.1% in the rest of the year.

The weak wage growth seen in recent years can be attributed in part to the fact that the unemployment rate underestimates the actual slack in the labour market. In the United States and the United Kingdom, the number of discouraged job seekers and involuntary part-time workers rose sharply following the crisis, after which it declined only gradually. Furthermore, owing to downward wage rigidity, wage growth initially could only respond to the strong post-crisis unemployment to a limited extent, particularly in the United States and the euro area. This caused wage growth to also rebound slower once unemployment started to recede. Weak labour productivity growth has also held back wages. As the recovery in growth continues, tightness in the labour market and labour productivity growth are expected to increase, putting upward pressures on wages. As recent experience shows, this process takes time, and consequently adjustments of wages and the inflation rate are delayed.

Structural factors have also played a part in the weak recovery in wage growth. For example, the low rate of labour productivity growth is probably partly structural. The number of part-time workers, most of whom are in a weak negotiating position, has increased since the crisis owing to a growing preference among employers for more flexible forms of employment. To the extent that structural factors play a part in this, wage growth will not respond to a further recovery in the labour market to the same degree as in the past.

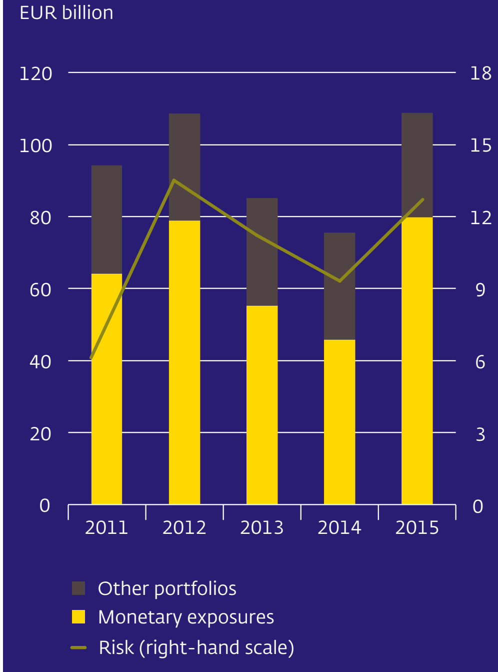
1.5.2 Monetary measures

In the euro area, expansive monetary policy is being used to deal with the low inflation rate. The deposit rate has been lowered to -30 basis points, and monetary conditions have been further eased by means of asset purchases. In January 2015 it was announced that the ECB's asset purchase programme (APP) had been expanded to include government bonds, in addition to covered bonds and asset-backed securities (ABSs). Monthly purchases under the programme amount to EUR 60 billion, with more than 5% of purchases being made by DNB. The intention is to continue with these purchases until at least the end of March 2017 and in any event until a sustained adjustment in the path of inflation is seen that is consistent with the aim regarding inflation rates. In addition, the Eurosystem is supporting bank lending by carrying out targeted longer-term refinancing operations (TLTROs). So far, almost EUR 420 billion has been lent in a total of six transactions. Box 1.1 considers the implications of these measures for DNB's risk

Box 1.1 Increased level of risk and deteriorating earnings prospects for DNB

2015 saw a deterioration in DNB's risk profile due to the situation in Greece and the expansion of the Eurosystem's balance sheet. The crisis in Greece lead to an increase in the exposures of the Eurosystem, including DNB, to Greece's banks, government and central bank. Furthermore, the risk of a Greek default, debt restructuring or even exit from the Eurosystem rose in 2015, and this risk remains high. The large-scale purchases made by the Eurosystem have also resulted in more exposures and additional credit risk for DNB, primarily in relation to European covered bonds. The purchases fix interest income at a low level for a prolonged period of time, and the resulting surplus liquidity is held by credit institutions in the form of deposits at the Eurosystem central banks which earn interest at the ECB's deposit interest rate. As a consequence, DNB is exposed to interest rate risk that is manifested when key interest rates are raised significantly and rapidly. As the purchased assets will be held until at least the end of March 2017 and the principal payments will be reinvested, the exposures and risks for DNB will increase further and will remain high for a long time. The low interest rates have also led to a decline in DNB's profitability. Moreover, profitability is also declining because existing monetary programmes, such as the securities markets programme (SMP), which produce higher returns, are coming to an end.

DNB's total exposures and risks



Trend in DNB's results

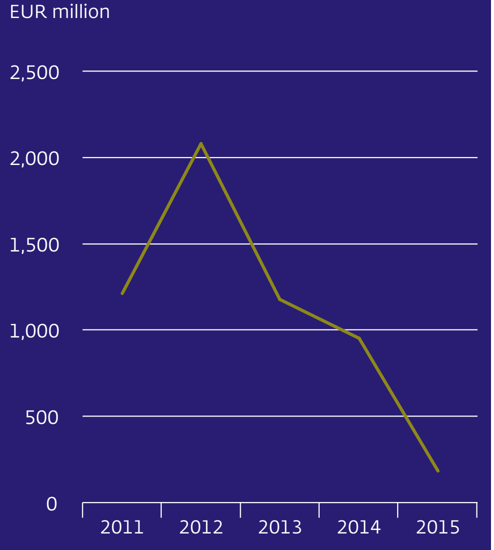
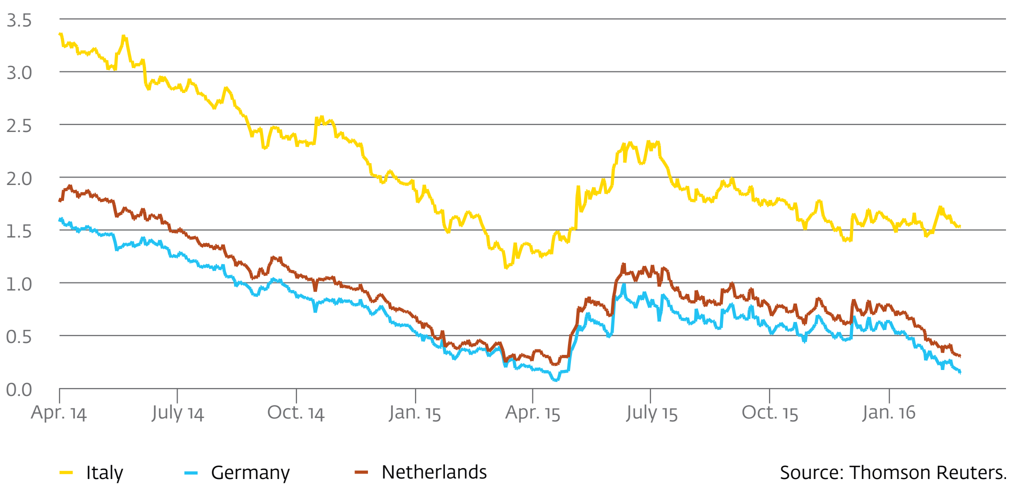


Chart 1.10 Interest on 10-year government bonds

Percentages



Source: Thomson Reuters.

profile. The effects of the monetary measures are particularly visible in the financial markets. Long-term interest rates have fallen sharply since mid-2014, when a large-scale purchase programme started to be priced in to a greater extent (see Chart 1.10). In addition, there has been a sharp depreciation in the euro, particularly in the run-up to the expansion of the APP to include government bonds. At the same time, private credit growth in the euro area returned to positive rates in 2015. There is considerable uncertainty surrounding the impact of the monetary measures. The ECB estimates their impact on euro area inflation to be 0.5 percentage points in 2016 and 0.3 percentage points in 2017, whereas the effect on cumulative GDP growth in the period 2015-2017 is estimated to be approximately 1 percentage point.

1.5.3 Diminishing returns

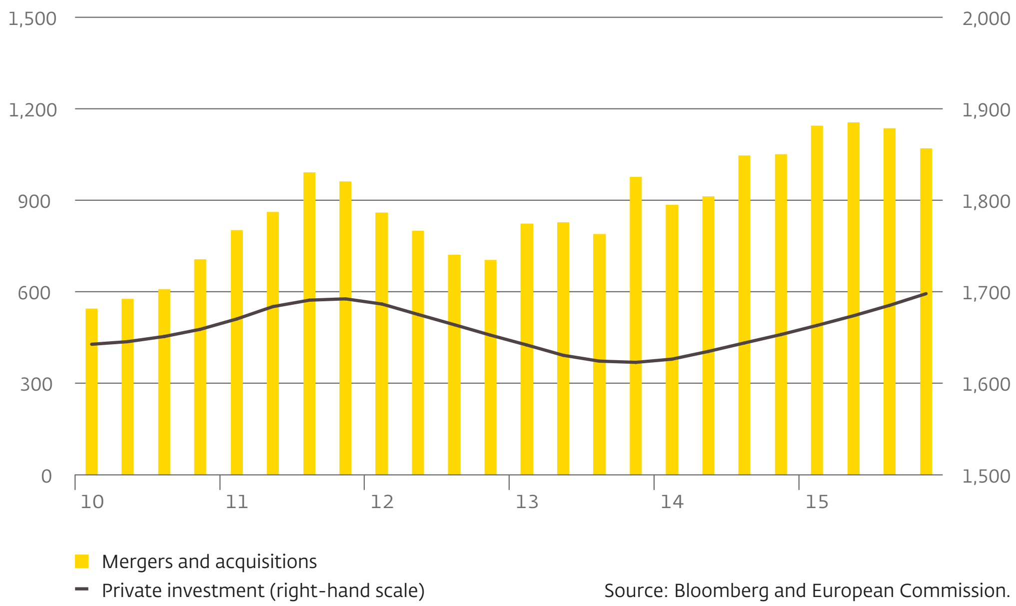
The accommodative monetary policy has its limits in terms of its effectiveness. For example, the APP had a strong initial impact on inflation expectations, but since then the upward effect has become less persistent. This example illustrates that when a monetary measure comes to be considered normal with the passage of time, announcement effects have less of an impact. In addition, the portfolio substitution mechanism, in which asset purchases by the central bank encourage more risky investments by market participants, can become less effective if there is a decline in expected returns due to high asset prices. Moreover, monetary policy has a limited impact if its implementation is impeded by more structural factors, such as high levels of debt, weak banks, market fragmentation and slow progress in structural reforms. Another explanation for the diminishing returns produced by the expansive monetary policy is the fact that the marginal effect of new measures is not so strong when nominal interest rates are extremely low owing to the phenomenon known as the liquidity trap. When market rates are very low, investors tend to hold cash because the additional return on alternative or longer-term investments is low. The effects of accommodative monetary policy can also be lessened over time if it becomes more difficult for banks to pass falls in market rates through to retail deposit rates. This puts interest margins under pressure, and banks might become hesitant to reduce lending rates as a result.

Pursuing an expansive monetary policy for a prolonged period can eventually lead to financial stability risks, partly because the continuation of the accommodative monetary policy is taken into consideration by market participants in their investment positions. It encourages the search for yield and makes financial assets more appealing than investments in the real economy. For example, there has been a sharp rise in merger and acquisition activities and share repurchases, whereas the recovery in corporate investment in the euro area has been slow (see Chart 1.11). The dichotomy between real and financial developments can lead to imbalances that eventually become unsustainable. The risk of harmful side-effects increases in line with the amount of time that the unconventional measures remain in effect.

Uncertainty surrounding inflation dynamics and the knock-on effect of monetary policy must be taken into consideration to a larger degree in monetary decision-making. The uncertainty is related to the unprecedented shocks for the economy, such as the sharp drop in oil prices and the after-effects of the financial crisis. In addition, structural changes in inflation dynamics, such as how pay increases respond to the state of the economy, may give grounds to review the desired inflation path, and in particular the time horizon chosen for monetary policy. As it will take some time for the monetary measures to have an impact on the economy and inflation, the time horizon over which the policy is assessed must be long enough.

Chart 1.11 Investment in euro area lags behind

Four-quarter moving sums in EUR billion



Source: Bloomberg and European Commission.

Note: Investment has been interpolated.

1.6 Towards a positive outlook for the EMU

Although the EMU has been strengthened in key areas in recent years, the currency union is still far from complete. A situation is threatening to arise in which governments share many risks with each other without sufficient effective rules in place to limit these risks. Moreover, economic growth is weak. Reinforcement of institutions and structural reforms should help bring about a positive outlook for the euro area.

1.6.1 The EMU is not yet complete

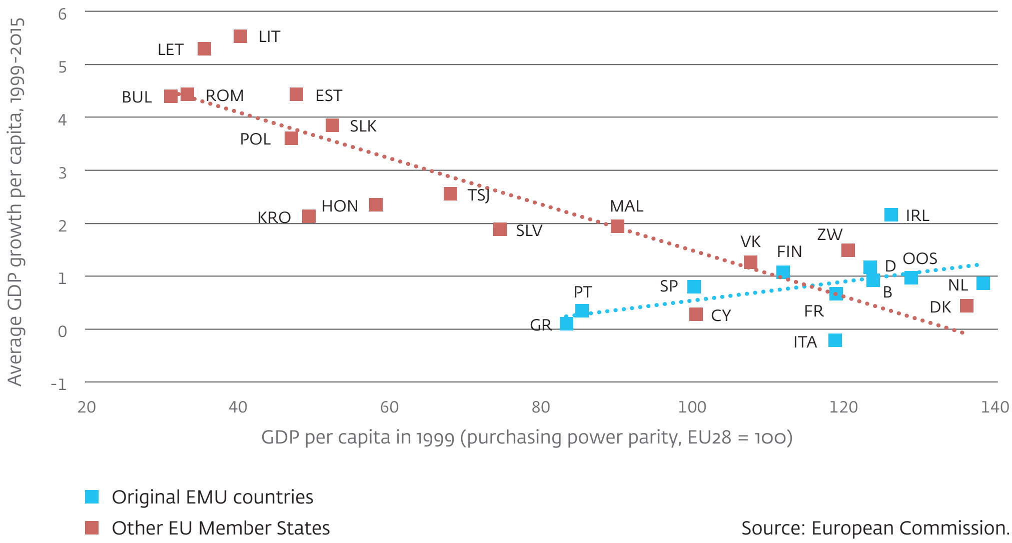
The EMU has been strengthened in key areas in recent years. The Stability and Growth Pact (SGP) has been revised to harness fiscal discipline, and the Macroeconomic Imbalances Procedure (MIP) should help prevent problems such as bubbles in the housing market and large current account deficits. The banking union should help prevent problems in the banking sector and reduce their impact on the government's budgetary position. Lastly, financial safety nets such as the European Stability Mechanism (ESM) can offer support to governments facing funding problems. Such reinforcements have made major financial turbulence in the EMU much less likely. This also became apparent in the summer of 2015 when the debate on the new Greek support package did not lead to other countries being affected by contagion.

Despite this, the strengthening of the currency union is not yet complete. For example, doubts as to the effectiveness of strengthened budgetary and economic rules are growing. On the fiscal front, some countries appear to be getting away with fiscal policies that are clearly inconsistent with the spirit of the SGP. In addition, the recommendations made in the context of the MIP to prevent imbalances have not been followed up in full by every country. As a consequence, vulnerabilities such as high public debts are diminishing slowly and new vulnerabilities can arise relatively easily. This situation is undesirable, especially because governments have agreed to provide each other with financial support during crises. For example, a situation is threatening to arise in which governments share risks with each other but there are insufficient effective rules in place to limit these risks, thereby increasing the likelihood of countries having to rely on public risk-sharing again through the European support funds. The balance between the degree of public risk-sharing and the strictness of European rule-based coordination is threatening to become skewed.

Furthermore, economic performance in the EMU remains weak. Recovery is slower than in other developed economies and unemployment is receding, but it is still at a high level, at 10.4% in December 2015. Moreover, in the run-up to the EMU it was assumed that the currency union would help bring about income convergence, but this aim has not yet been achieved. Since 1999, EU countries with a relatively low income have caught up to some degree in terms of prosperity (see Chart 1.12). That said, the poorest of the twelve original EMU countries have even fallen slightly further behind. This is partly due to the imbalances that arose, such as bubbles in the housing market and current account deficits.

Chart 1.12 Income convergence since 1999: EMU vs EU

EUR thousands and percentages

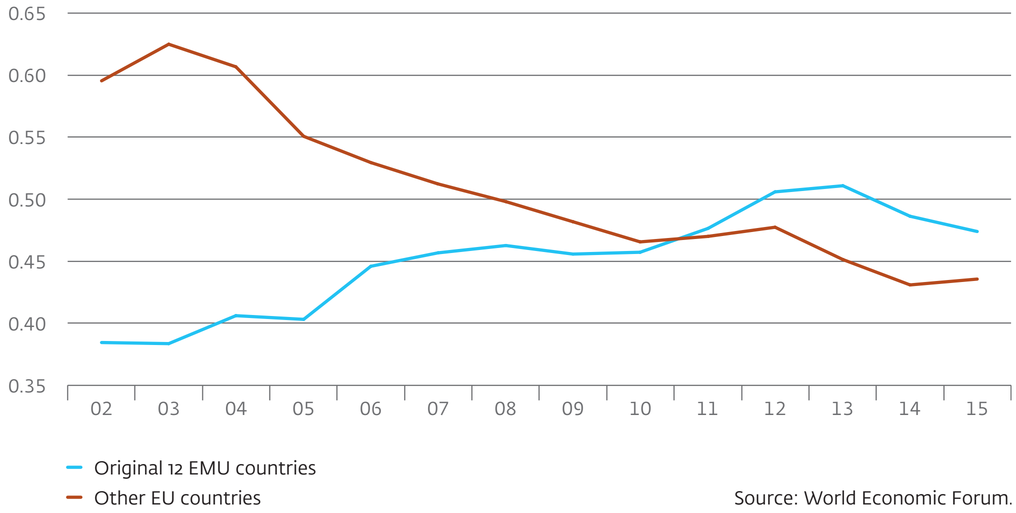


Source: European Commission.

Moreover, some countries are having to contend with structurally low economic growth, as they have not been able to adjust their economies quickly enough to meet the challenges resulting from disappearing exchange rates and increased competition due to globalisation. The differences between countries in the area of competitiveness, adaptability and the quality of institutions have continued to increase since the EMU was launched (see Chart 1.13), rather than having narrowed. In the long term, such trends can affect support for the currency union. Further reinforcement of the EMU is therefore necessary to ensure a positive outlook for the euro area. The Five Presidents' Report (the Presidents of the European Commission, the Eurogroup, the European Council, the European Parliament and the ECB) on the future of the EMU, which was published in 2015, provides a useful basis in this respect. It is vital that a better balance is ensured between the degree to which governments share risks and the extent to which they can limit those risks through European coordination. In addition, countries must implement structural reforms to increase their adaptability and capacity for growth.

Chart 1.13 Structural differences within the EMU and the EU

Standard deviation, World Economic Forum's Global Competitiveness Index



Source: World Economic Forum.

Note: The method used by the World Economic Forum has been refined over the years and therefore year-on-year figures are not fully comparable. A rising line indicates that differences between countries are increasing, whereas a falling line indicates that such differences are becoming smaller.

1.6.2 Strengthening policy coordination

Improved compliance with and enforcement of existing rules will facilitate the elimination of economic vulnerabilities, meaning that they are essential preconditions for a better balance between coordination and public risk-sharing. Improved compliance requires effort on the part of countries themselves, although improvements at a European level are also possible. The framework has become extremely complex in a number of areas, which has an adverse effect on compliance and enforcement.

First and foremost, the rules need to be simpler and must focus on preventing imbalances. On the fiscal front, for instance, more attention needs to be devoted to creating rules for readily measurable indicators, such as public debt or growth in spending, in addition to rules for the sometimes volatile structural EMU balance, which adjusts the actual general government balance for the state of the economy. The number of indicators used in the MIP to detect imbalances can be reduced. Secondly, rules need to be applied more strictly and in a more transparent manner. Procedures can be simplified by allowing fewer waivers and formulating clearer criteria for exercising discretion. Lastly, countries must be more closely involved in enforcing the rules. Evidently, compliance cannot be left entirely to individual countries, but centralisation also has drawbacks, particularly because centralisation is often achieved at the expense of support for the rules. In this context, the Five Presidents' Report could be followed up, which recommends setting up networks of independent authorities. The report advocates the establishment of a European Fiscal Board to supplement the independent national budgetary authorities – such as the Council of State in the Netherlands – set up under the Treaty on Stability, Coordination and Governance. Likewise, each country would have to establish a national competitiveness authority. These networks could in due course be given greater powers for enforcing the rules.

1.6.3 Public and private risk sharing

Further improvements should be made in the way EMU countries mutually share risks. There are still many unused options for increasing risk sharing with private parties before taxpayers end up footing the bill, for instance by means of cross-border share ownership, which allows shareholders in other countries to share in a company's profits and losses. In the United States, such private risk sharing helps to dampen economic shocks more than the entire federal budget. Private risk sharing has not yet reached the same maturity level in the EMU. Although there has been a sharp increase in financial integration, capital flows have proved to be procyclical, making matters worse financially. The European debt crisis saw capital flight on a large scale, which led to a sharp rise in recourse to public risk sharing. Increased private risk sharing requires a different form of financial integration, in which the European capital markets union is an important first step. Private risk sharing could be promoted by making international shares more appealing investments than debt, for example by scaling back tax incentives for debt financing. Likewise, a situation could be promoted in which international lending is no longer handled exclusively through banks, and in which bond issues and securitisations are also used. Finally, improvements in the area of the settlement of liabilities need to be made by harmonising insolvency legislation in the EMU countries. However, if a degree of risk sharing similar to that in the United States is to be achieved, further integration will also be required in other areas.

In addition, restraints can be imposed on the use of public funds in situations when public risk sharing is still required, such as during a crisis, which will also contribute to a better balance between risk sharing and coordination. This can be achieved by, among other things, encouraging banks with large holdings of bonds issued by their national government to continue to strengthen their balance sheets. This will make them less vulnerable in the event that risks associated with those bonds materialise. To this end, the favourable treatment of government bonds in banking regulations needs to be changed by introducing risk weightings and concentration limits for these balance sheet items, as has already been done for other assets (see Section 2.3.4). Enabling limits to be placed on the demands made on the ESM, before any countries are given an emergency loan, is also desirable. In that context, it is recommended that a restructuring mechanism be introduced for government debt, in which an independent institute prepares a sustainability analysis based on clear rules. If this analysis reveals that the debt is not sustainable, the government debt must be restructured first.

1.6.4 Structural convergence and public risk-sharing

Structural reforms and the further strengthening of the internal market can help make the economy more flexible and increase its growth potential, something that is important for creating a positive outlook for the euro area. For example, further progress can be made in the area of the internal market for services and for regulated professions such as architects, lawyers and public notaries. Many gains can also be achieved by removing bottlenecks that prevent small businesses from growing and by improving the quality of the legal system, for example to ensure the fulfilment of contracts. In the first instance, it is up to countries to implement such reforms themselves. In time, the EU should step up in terms of encouraging countries to strengthen their economic structures through reforms. It can encourage such structural convergence by means of a more binding coordination of reforms, using benchmarks and minimum standards.

Finally, structural reforms could be encouraged by providing countries that have achieved a degree of convergence with access to a fiscal stabilisation fund, as proposed in the Five Presidents' Report. Such an option is not without risk, however. If the EMU functions well and countries avoid imbalances, continuing to use national budgets to absorb shocks is not a problem. A stabilisation fund is particularly effective in those cases where the process of national stabilisation is obstructed by high levels of public debt, for example. However, in this situation it is particularly likely that a stabilisation fund will end in a permanent redistribution between countries that does not enjoy adequate political support. Given this, extending public risk-sharing will not be feasible until structural differences in the EMU have been further reduced and the mechanisms for limiting risk are working effectively. In addition, both national and European taxes are paid, in the end, by the same taxpayers, implying that any possible increase in European taxes will leave narrow leeway for taxation at a national level.

Supervision:
permanently alert

2 Supervision: permanently alert

2.1 Introduction

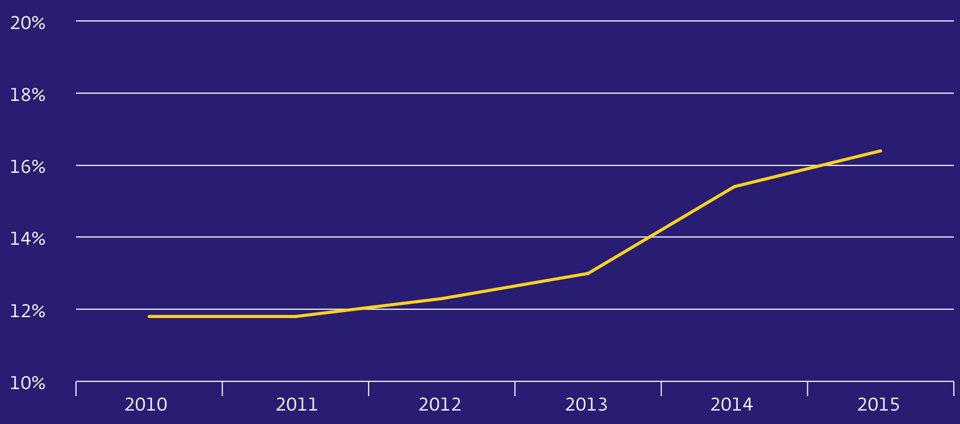
Last year saw economic recovery in the Netherlands. Financial institutions are better able to weather financial crises, in part thanks to the legislative agenda pursued. Although we welcome this progress, it does not mean that our prudential supervision is in calmer waters. Important concerns impeding the restoration of trust still remain throughout the financial sector. In addition, certain macro-economic, geopolitical and European developments and risks may have major implications for Dutch financial institutions. We therefore keep a close watch on these developments. If anything, history has shown that risks develop in times of relative prosperity. Hence we see every reason to stay with our decisive approach in prudential supervision.

The State of Supervision, which is published simultaneously with this Annual Report, reviews developments in the past year. This chapter sets out the most important challenges and risks for our supervision in 2016. Section 2.2 addresses the sustainability of the insurance sector, with the challenges for business models, the implementation of Solvency II and global capital standards playing key roles. Section 2.3 discusses the main developments in banking supervision: the SSM is in full swing well over a year after its introduction and the finalisation of the implementation of Basel III is getting closer. Section 2.4 describes what we consider to be the characteristics of a sustainable pension system and what role supervision plays when risks are increasingly borne by individual members. Section 2.5 looks at our ongoing focus on governance, discussing the importance of a thorough integrity risk analysis and reinforcing the screening process. Section 2.6 examines the emergence of technological innovation in the financial sector. Lastly, Section 2.7 looks at new potential risks on our radar: commercial real estate and climate change.

Box 2.1 Financial position of banks, insurance companies and pension funds

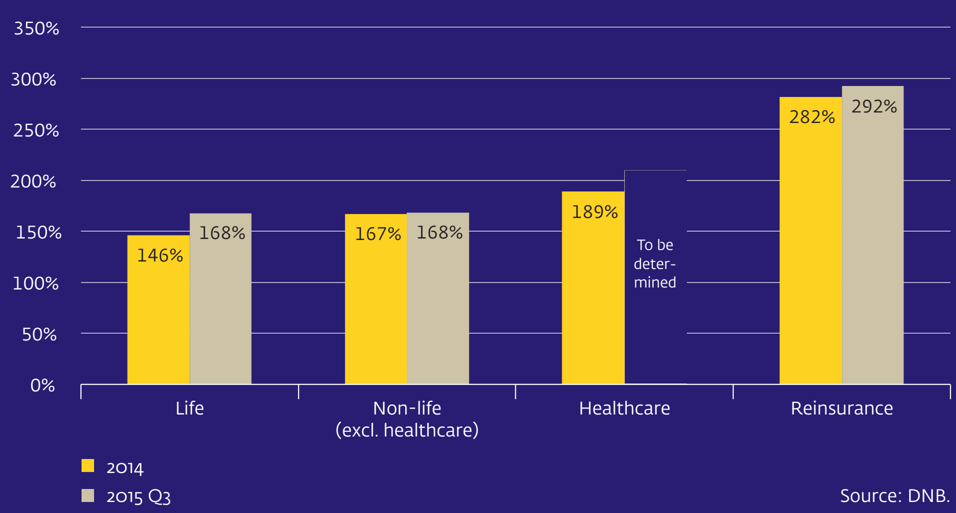
Banks have strengthened their capital position in recent years, but the financial position of pension funds and insurance companies is still vulnerable. A more detailed overview of the financial position of Dutch financial institutions can be found in DNB's State of Supervision 2015.

Capital positions of banks



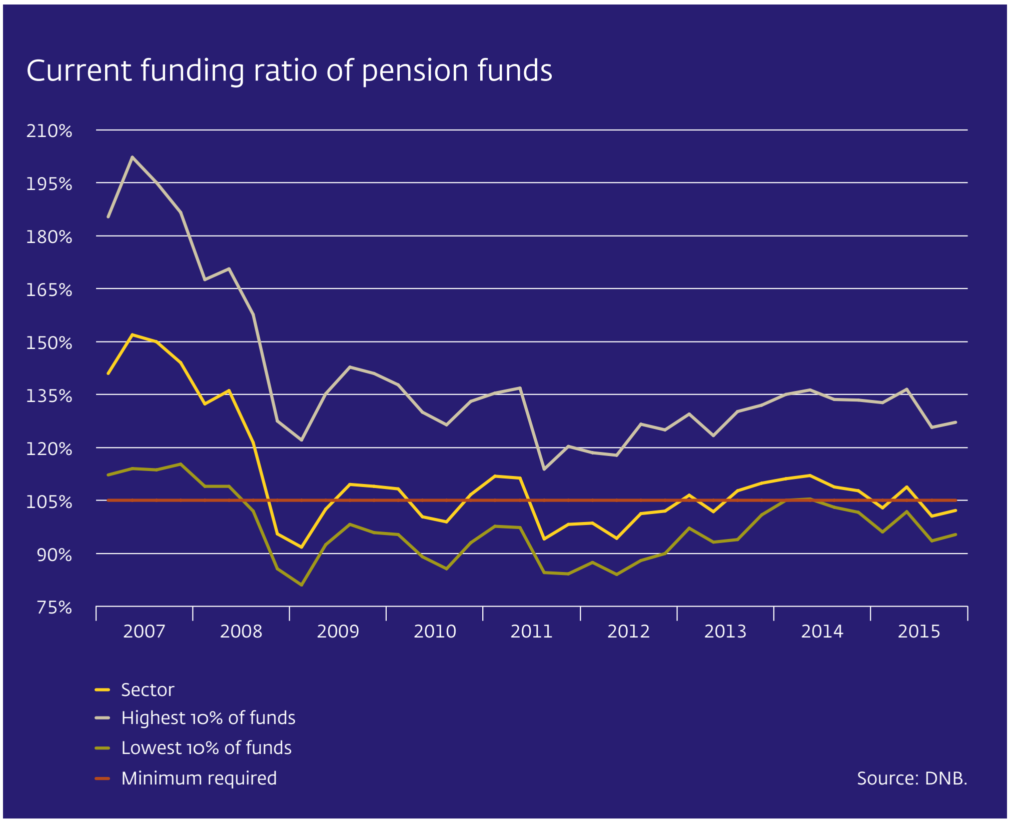
Source: DNB.

Solvency II ratios[1] of insurers



Source: DNB.

1 Solvency ratio defined as actual (and eligible) own funds expressed as a percentage of required capital. Weighted average solvency ratios for solo entities under the standard formula.



2.2 Long-term viability of the insurance sector

Changing market conditions, low interest rates and declining confidence in insurance companies have driven up risks in the industry in recent years. We continue to encourage the sector to face these challenges head-on. This requires a sound supervisory framework. The purpose of the new European Solvency II framework and, in due course, the global IAIS requirements is to ensure that institutions are able to meet their obligations. We also work actively, both nationally and internationally, to develop an effective recovery and resolution framework.

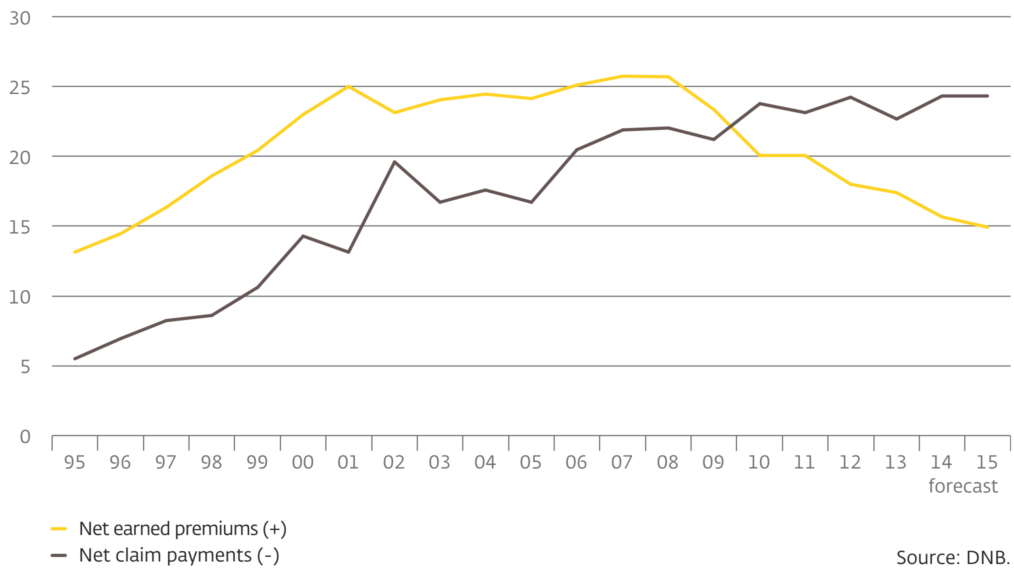
2.2.1 Challenges for insurance business models

Insurers' turnover and earnings generating capacity are under pressure. The profiteering policies scandal and alternatives for capital-building life insurance policies have led to a sharp drop in sales (see Chart 2.1). In addition, capital positions have deteriorated on the back of the current low level of interest rates.

But there are new opportunities as well. The Act on General Pension Funds *(Wet Algemeen Pensioenfonds)* provides new options for insurance companies in the group life insurance market. The legislative proposal on variable pension benefits allows insurers to market a new type of pension products. Technological innovation poses opportunities as well as threats to the Dutch insurance sector. It is essential for insurers to anticipate innovations well in advance, given their great potential impact.

Chart 2.1 Life insurance companies: premiums and payments

EUR billion, quarterly figures are cumulative in each calendar year



Source: DNB.

We believe it is important that insurers enhance the sustainability of their business models on an ongoing basis and we will continue our dialogue with them on this topic. 2016 will see the publication of our vision on the structure of the insurance sector from a micro- and macroprudential perspective, containing our analysis of social and global trends and setting out our recommendations aimed at improving the sector's long-term viability. In addition, EIOPA will perform a stress test in 2016 to test the resilience of insurers against low interest rates, among other things.

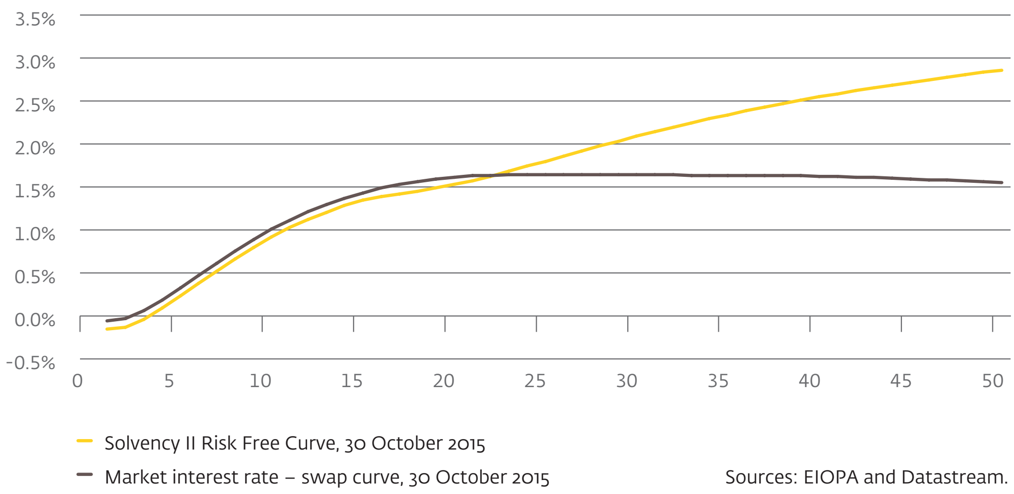
2.2.2 Implementation of Solvency II

The new European supervisory framework Solvency II is a major step forward. It makes it easier for supervisory authorities as well as the general public to identify risks. This provides an extra incentive for insurance companies to reduce vulnerabilities, for instance to low interest rates.

Following intensive preparations for Solvency II in recent years, we will assess the first reports in 2016, zooming in on data quality. We have also considered applications of insurers wanting to use an internal model to calculate the capital requirement under Solvency II and we closely monitor the implementation of governance requirements arising from Solvency II, in particular the organisation of key functions.

Chart 2.2 Yield curves

Maturity in years



Sources: EIOPA and Datastream.

At the national level, we have developed the Solvency II Basic supervisory framework for small insurance companies and funeral expenses and benefits in kind insurers, which is built up along the lines of Solvency II but is less extensive in scope in view of proportionality.

Several key details of Solvency II will be evaluated in 2016. For instance, the current market interest rate is significantly below the level of the Solvency II yield curve used in discounting future commitments (see Chart 2.2). This is mainly due to the relatively high ultimate forward rate (UFR), which in turn has an impact on the solvency ratios under Solvency II. Where needed, we will consider this UFR impact in assessing an insurer's capital and dividend policies. We internationally advocate adjusting the UFR and hence the yield curve. We also closely monitor other effects of the implementation of Solvency II to identify possible points for improvement.

On the whole, insurers are well-capitalised (see Table 2.1). It is important to note that the Solvency II ratios cannot be compared one to one with those under Solvency I, given that the underlying capital requirements are calculated fundamentally differently. The capital requirements under Solvency II are risk-based, i.e. the more risk an insurer assumes, the higher its required buffers are.

Table 2.1 Solvency ratios under the Solvency I and Solvency II regimes

Percentages

	Solvency ratio	
	Solvency I	Solvency II
Reinsurance	692	282
Life	244	146
Non-life	343	167
Healthcare	247	189

A solid framework cannot always prevent insurers from collapsing. An insurer's bankruptcy may undermine confidence in the sector even further and have other undesirable effects. This is why we work together with the Ministry of Finance, both nationally and internationally, on an effective recovery and resolution framework for insurers. The purpose of this framework is to promote timely and orderly resolution of distressed insurers, for instance by drawing up resolution plans.

2.2.3. Development of worldwide standards

Given that many large insurance companies have operations throughout the world, we also work on a global level on supervisory frameworks for internationally active and systemically important insurance groups. This is done under the aegis of the International Association of Insurance Supervisors (IAIS), the globally active umbrella organisation for insurance supervision. We regard this common framework and the accompanying worldwide capital standard for insurance companies (insurance capital standard – ICS) as important steps in harmonising supervision on a global level. We expect they will help us gain better insight into the non-EU operations of Dutch insurance groups and into the Dutch operations of non-European groups. It is our aim to align the new standards with Solvency II as much as possible, so that European insurance companies will be subject to stable and consistent frameworks.

Each year, the Financial Stability Board (FSB) publishes a list of global systemically important insurance companies. An insurer is regarded as global systemically important if its failure could have a major impact on the global financial system and the real economy. The FSB identified Aegon as a global systemically important insurance company in late 2015. Systemically important insurers must meet several supplementary measures, including an additional capital requirement. The purpose of these measures is to reduce the likelihood and impact of the collapse of systemically important insurance companies and to mitigate the risk of contagion.

2.3 Banks: SSM gains momentum, Basel III nears finalisation

In 2015 crucial steps were taken in banking supervision, at both European and global level. The Single Supervisory Mechanism (SSM) was successful in its challenging first year and major progress was made in the further harmonisation of banking supervision. In Basel, the debate about further global homogenisation of supervisory standards is now in its final stages. The finalisation of Basel III and the ongoing harmonisation of banking supervision will eventually contribute to more efficient and stabler banking services. Against this background, Dutch banks have further strengthened their capital position and have become more resilient to financial shocks.

2.3.1 SSM gains momentum

The SSM constitutes a cross-border supervisory framework founded on effective cooperation between the ECB and the national supervisory authorities. It is based on the principle of using the expertise and experience available within the SSM. As of 4 November 2014, the ECB directly supervises all significant banks in the countries participating in the SSM. These now comprise 130 banks and bank groups with a balance sheet total of EUR 25 trillion (2.5 times the gross domestic product in the euro area). Joint supervisory teams (JSTs), in which ECB supervisors work in collaboration with examining officers of the national supervisory authorities, are responsible for supervising these banks. Together they are responsible for prudential supervision of less significant banks, with the national supervisory authorities bearing primary responsibility for supervision under the auspices of the ECB. The JSTs deployed the SSM instrument of conducting comprehensive on-site examinations of specific topics such as credit risk or risk management on a large scale in the past year, performing some 300 on-site examinations and business model inspections. The initial results are encouraging: the on-site examinations improve our insight and enable us to make more specific supervisory interventions.

2.3.2 Harmonisation of European banking supervision

Major progress was made in the further harmonisation of prudential supervision in the SSM's first year. Banking supervision under the SSM is exercised on the basis of a common supervisory methodology (Supervisory Manual), which was developed further in the year under review in response to initial experiences. In the harmonisation of European banking supervision, one of our objectives is to emphasise our experiences with supervision of behaviour and culture.

Crucial steps were taken to agree on a common SSM methodology in the Supervisory Review and Evaluation Process (SREP), although there is still room for improvement, for instance as regards liquidity. Moreover, with the macroprudential buffers being phased in as well, the various components of the capital requirements must be properly aligned. The Supervisory Manual will therefore be developed in greater detail for the purpose of the 2016 SREP decisions.

In 2016, 39 SSM banks from ten different countries will participate in the stress testing exercise of the European Banking Authority (EBA). The assets of these banks account for 70% of the total banking assets in the euro area. The ECB subjects significant banks beyond the scope of the EBA stress test to a separate top-down stress test, which is in line with the EBA stress test but takes account of these banks' smaller size and lower level of complexity.

To guarantee a level playing field and ensure that the capital ratios under the SSM are easier to compare, it is important that banks are subject to identical requirements to meet specific standards. The relevant regulations (CRD IV/CRR) leave the application of certain provisions to national supervisory discretion. This is why in 2015 projects were initiated in the SSM aiming to harmonise (i) the application of European supervisory regulations and (ii) the assessment of banks' internal models.

2.3.3 Finalisation of Basel III: balancing standardisation against risk sensitivity

In the definition of global supervisory standards internal models come under thorough scrutiny. In the final stages of the post-crisis Basel reforms, the emphasis is on standardising the determination of risk-weighted assets, which are now mostly determined using internal models. At the same time, efforts are being made to retain risk sensitivity, which is important in the establishment of banks' risk-weighted capital requirements.

The main risk inherent in the use of internal models is understatement of risks and related capital requirements. Internal models may also yield inexplicable differences between the calculated risk weights, potentially distorting the level playing field among banks. Because of this, one of the options under consideration is to restrict the use of internal models to a certain degree. This can be done through measures limiting the degrees of freedom when calculating parameters in internal models. Leverage ratios and capital floors may also indirectly reduce the importance of internal models. The higher the percentage at which these are set, the smaller the importance of internal models in the calculation of risk-weighted assets.

But internal models have distinct advantages as well; they are more risk-sensitive and encourage banks to improve their risk management. All in all, the challenge lies in maintaining the added value of internal models while mitigating their inherent model risk.

2.3.4 Keystone to the Basel accord: treatment of sovereign risk

A review of the treatment of banks' exposure to sovereign debt may be the keystone to the Basel reforms. Supervisory regulations for banks include preferential treatment of sovereign exposures. The treatment of public debt is currently being evaluated in all the different parts of the Basel framework.

At the moment, most sovereign bonds are not subject to capital requirements or concentration limits. This is at odds with the associated risks; sovereign exposures often carry low risk but are by no means risk-free, as is also evident from recent experiences in Europe. A more risk-consistent treatment of sovereign bonds may result in stricter capital requirements and more diversified government paper portfolios.

2.3.5 Towards more efficient and stabler banking services

Tightened international standards and harmonisation of banking supervision under the SSM will eventually contribute to more efficient and stabler banking services. The international nature of the European banking sector and the leveller playing field within the SSM increase opportunities for cross-border competition. However, there is no fully integrated European banking market yet. For instance, there are still considerable differences between countries in terms of consumer protection, the use of government guarantees on deferred tax assets, bankruptcy laws and tax evasion. This has two consequences. First, it calls for further harmonisation of the underlying limitations to the banking union. Second, for the time being European banking supervision will retain both a European and a national focus.

2.4 Features of a sustainable pension system

Low interest rates and high life expectancy pose challenges to the Dutch pension system. Initiatives are being taken to move the system away from traditional defined benefit schemes involving commitments to members of pension benefits with high levels of assurance. In our capacity as supervisory authority and central bank, we strongly advocate a sustainable pension system. A sustainable system is characterised by members' unambiguous claim on a fund's investments supplemented with predefined distribution rules, balanced risk-sharing, customisation and a broader pension savings obligation that better matches the different groups in the labour market. It also supports macro-economic stability. As risks shift to individual members, the focus of our supervision changes but the underlying principle remains the protection of the members' interests.

2.4.1 Defined benefit agreements more expensive and less secure

The current Dutch system for supplementary pensions is largely based on defined benefit agreements. The sustainability of these schemes is under pressure as the related costs have sharply increased. Relative to 1970, identical pensions are roughly twice as expensive these days. Of this increase, three quarters is caused by the decline in capital market interest rates and one quarter by the increase in life expectancy.

Current defined benefit agreements have not only become more expensive but also less and less secure over the past period. First, most funds apply index-linking only if their financial position permits this and curtail pensions if their funding ratio is too low. Second, the risks borne by employers as sponsors are reduced further and further. Third, despite economic benefits, opportunities for sharing risks with future generations are fading due to increased labour mobility, the growing number of self-employed people, and population ageing. Sharing risks with future members implies that financial windfalls and setbacks are partly charged on to members who have yet to join the fund. The added value of this risk-sharing has decreased, driven, among other factors, by population ageing; the group of future members with whom risks will be shared is getting smaller relative to the size of the current collective. Then there is a risk of discontinuity, i.e. if on-charged deficits are sizeable, support for the system may fall and confidence may be further eroded.

Moreover, there is a gap in expectations among members. Although defined benefit agreements prove increasingly sensitive to financial setbacks, members hope for a pension with preserved purchasing power with a high level of assurance. This calls for increased transparency to restore confidence in the pension system, which requires both sides of industry to design clear and specific pension contracts allowing them to realistically fulfil their commitments. A good example are recovery plans, in which pension funds seek to restore compliance with the own funds requirement. The recovery plans show that the funds expect to achieve recovery almost exclusively on the basis of future returns. Although this is permitted by law, pension funds must communicate to members clearly that recovery is vulnerable because it is uncertain whether the required investment income will be realised. If it is not, this will put further pressure on the pension funds' financial position.

The current defined benefit schemes also have a number of issues from a macro-economic perspective. For instance, they strengthen the economic cycle by generating upward pressure on pension contributions in leaner times, and are less and less compatible with the labour market. Increased labour mobility (self-employed people, flex workers) calls for flexibility. As the pool of self-employed professionals grows, the part of the working population subject to mandatory membership shrinks. Moreover, members' pension ambitions do not always match their savings and spending patterns. This is particularly true for high-income members, who often also build up wealth in owner-occupied homes.

2.4.2. A new system, based on group cover and customisation

We recommend an overhaul of the Dutch pension system to ensure it is future-proof. The basic structure of a sustainable pension system published by the government provides for several solution approaches. In our opinion, members should have an unambiguous claim on a fund's investments under predefined distribution rules, which will create clarity in advance how the fund will respond to windfalls and setbacks. We also advocate the investigation of a broader pension savings obligation that better matches the different groups in the labour market, customisation and balanced risk-sharing. The current average pension contribution system *(doorsneesystematiek)* is an example of redistribution involving a structural transfer from younger to older members. DNB calls for an actuarially fair system. It is important for macro-economic reasons to spread the costs of abolishing the average contribution system over a longer period and over multiple stakeholders.

A group approach in this respect remains essential, allowing leveraging benefits of scale and sharing micro longevity risk. It also provides scope for sharing, for instance, inflation and macro longevity risk. A balanced treatment of the interests of the various member groups is crucial to ensure broad social support. A group implementation goes together well with clear and properly defined distribution rules. This includes predefined agreements on adjusting claims in the event of financial shocks and changes in average life expectancy.

A combination of the best elements from defined benefit and defined contribution agreements enhances the sustainability of the system. One of the strong elements of defined benefit agreements is the group approach referred to above. Defined contribution agreements have the advantage of allowing for more customisation to cater for the different security needs of different generations, and they are less likely to have a disrupting effect on the real economy. As no defined benefit is involved, there is no need to promptly adjust contributions in the event of a financial shock. Moreover, the savings surplus of some members in this regime can be reduced by means of other forms of customisation, for instance an income-related accrual with an actuarially fair contribution. This can be achieved by gradually tightening the rules on tax relief for pension contributions (the Witteveen framework).

It goes without saying that low interest rates and high life expectancy are factors complicating the accumulation of adequate pension capital in defined contribution agreements as well, given that under these circumstances it is costly to build up sufficient capital for lifelong pension benefits. In addition, a new system will not increase the available funds. The transition to the new system therefore poses a major challenge, which possibly requires the transfer of existing entitlements to the new system. The alternative would be to close current pension schemes to new capital accruals, incorporating them into new schemes. This would avoid any transfer complications but would imply the long-term coexistence of two worlds.

2.4.3. A different focus in supervision as risks shift to individual members

The transition from defined benefit agreements to pension contracts in which risks are increasingly borne by individual members affects the focus in our supervision. For traditional defined benefit agreements, the supervisory framework mainly focuses on funding ratio adequacy. In a situation where individual members bear more risks, supervisory emphasis shifts to the prudent person principle in investment policies and a balanced consideration of interests: pension providers must put members' interests first in their policies. A good example is the development of specific supervisory tools in the legislative proposal on variable pensions. These tools are needed to effectively supervise variable pensions by ensuring that the risk profile of the investments matches the members' risk bearing capacity and risk appetite.

2.5 Governance – integrity and screening

The media frequently report on incidents at financial institutions. To restore public confidence, it is essential to reduce incidents in terms of both severity and number. Ever since the financial crisis, institutions and supervisory authorities have paid significantly more attention to managing qualitative risks, including integrity. They also increasingly focus on appointing suitable and trustworthy managing directors.

2.5.1 Integrity

The purpose of integrity supervision is to promote a strong and sound financial sector that is resilient to financial and economic crime. Financial institutions have a special position and responsibility as "gatekeepers". They manage and facilitate balances and transactions worth many billions of euros and have a duty to monitor and check these properly. Gatekeepers ensure that the financial system is closed to "questionable" business contacts. They are also expected to detect, report and stop unusual and suspect transactions, and refuse to store funds deriving from corruption. Although more and more financial institutions recognise this, we still observe that quite a few of them shirk their responsibilities and fail to comply with the rules. A considerable number of financial institutions do not adequately analyse the integrity risks inherent in their operations. For instance, institutions frequently do not know their customers and do not establish the origins of high-risk customers' assets. Some institutions do not consistently perform basic screenings, which may cause them to accept individuals appearing on sanctions lists as customers or fail to understand just how vulnerable certain structures are to criminal cash flows.

This is mainly explained by a lack of sufficient knowledge of integrity risks. We have found that a considerable part of the financial sector does not adequately analyse its integrity risks. Too many Dutch financial institutions have difficulty in identifying their exposure to financial and economic crime.

We see to it that they at least properly comply with the basic requirements, which involves an adequate level of customer due diligence, screening, transaction monitoring and prompt reporting of unusual transactions. Other crucial responsibilities include active detection of potential terrorist financing and prompt reporting of potentially related transactions.
We will continue to prioritise this in 2016.

A risk-based approach cannot be effective without a sound risk analysis. Against this background, we urged institutions in 2015 to improve their systematic integrity risk analyses, also by issuing guidelines and sharing good practices. We will build on this in 2016, watching closely to ensure that institutions are explicit about their integrity risk appetite, which underlines their own responsibilities.

2.5.2 Reinforcement of screening process

We have found that good governance is a key prerequisite for a sound and stable financial sector. That is why we will continue to focus on the suitability and integrity of managing and supervisory directors in the financial sector. Initial screenings are an effective supervisory instrument in this context, providing a major incentive for financial institutions to adequately fulfil their responsibilities in the appointment of new managing and supervisory directors. This impression is confirmed by an external study; the instrument helps to increase institutions' awareness of governance and succession issues and to enhance the quality of management. In 2016 we intend to emphasise institutions' own responsibilities even more, focusing on supervision of adequate appointment processes. In addition, our screening interviews will be more risk-based.

Our screening process also meets with criticism. We have carefully analysed all critical voices and drawn up an action plan. One of the things we found was that the structure of the screening process is not always clear to the persons being screened, and that they do not always know which formal steps are open to them in the course of the screening process. In short, they were unsure about their legal position, while at the same time their rights were of course safeguarded. To take away their concerns, we started a pilot in which we offered the option of recording the screening interviews. We found that some candidates feel this will rule out the possibility of misunderstandings about what has been said. Of course, it is not mandatory to have the interview recorded. We now also allow persons to be screened to bring a representative to the interview. In the case of a rescreening, we always advise them to bring a representative. We seek to improve our communications about the screening process, for instance by organising information meetings for prospective managing and supervisory directors and for the persons at the institutions involved in preparing the screening. We will also expand the information on our website and make our invitations and letters clearer, for example by providing more information on the available options for objection and appeal.

In cooperation with the Netherlands Authority for the Financial Markets (AFM), we have instructed an independent external committee to evaluate the screening procedure in 2016. The committee will assess the extent to which our current approach contributes to the objectives of suitability legislation. We will submit the committee's findings to the Ministry of Finance, for information to the Dutch Lower House. By the end of 2016 we will decide whether the improvements have been effective.

Incidentally, European cooperation sheds ever more light on differences between procedures at the national level. An EBA report published in 2015, for instance, revealed that suitability procedures and processes differ widely from one country to the next. In response to this observation, the EBA promotes harmonisation of regulations as well as processes, in part on the basis of best practices derived from Dutch supervisory practice. The ECB has communicated the same message to the European Commission.

2.6 Technological innovation as a new challenge

Technological innovation is seen as one of the primary forces influencing the financial sector in the years ahead. Innovations in payment systems, lending, asset management and insurance pose challenges to the business models of well-established financial institutions, but they equally present numerous opportunities. Innovation can promote efficiency, and the entry of new, innovative parties contributes to wider competition and more diversity in the sector. In addition to opportunities, technological innovation also entails potential risks for the financial sector. Established parties will have to renew their business models to withstand the pressure from innovative players. The use of big data and sensors and the digitalisation of customer contact carry integrity risks. Operational challenges can also arise through the assimilation of innovation in existing ICT systems.

We seek to facilitate technological innovation in the sector while mitigating risks. To this end, we first and foremost look for ways to tailor our supervisory approach more specifically to the changing financial sector. This involves a potentially more differentiated approach to the authorisation process, for instance granting a fixed-term authorisation for innovative services or partial authorisations for specific activities. In cooperation with the AFM, we will also set up an innovation centre to deal with questions from market parties concerning regulations and policies. Second, we will step up our dialogue on this topic with market parties, fellow supervisory authorities and legislators. Lastly, we will expand our knowledge of technological innovation through education and targeted recruitment policies, and by actively monitoring developments in the field.

2.7 Risks for the Dutch financial sector in the longer term

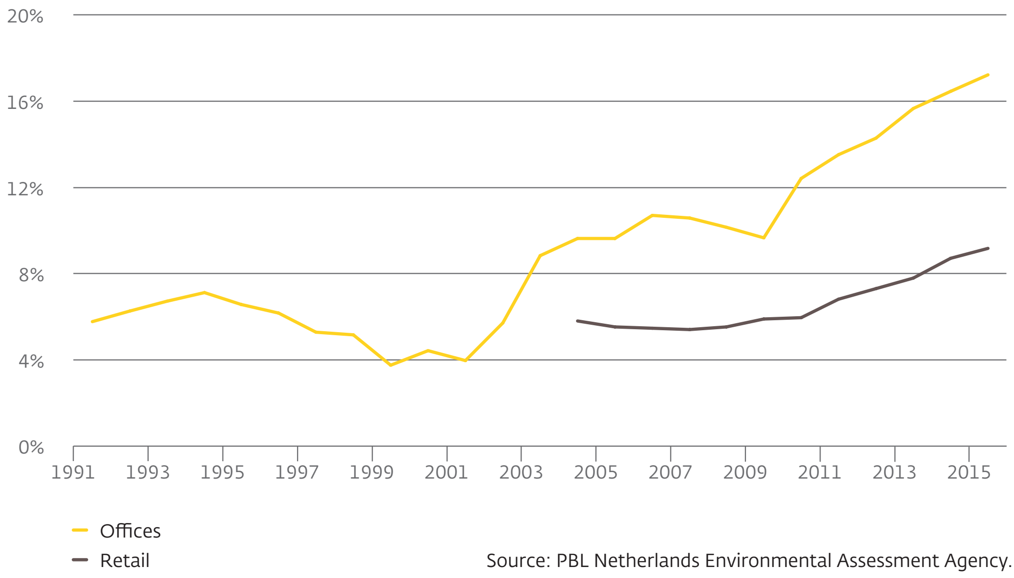
In our capacity as prudential supervisor, we look at risks to the soundness and integrity of financial institutions and the stability of the financial system. This includes developments that could entail risks in the longer term, in particular if these potentially have considerable impact on the sector. Important examples are commercial real estate and climate change.

2.7.1 Commercial real estate

Although prices on the office and retail real estate markets are stabilising on average, this obscures structural risks. Vacancy rates are high and rising (see Chart 2.3), and regional differences are increasing. Prices at attractive locations are up, while those at less attractive locations are unchanged or down. The decreasing occupancy rate per office worker and increasing online sales may put further pressure on demand for office and retail space.

These trends may cause new risks for banks to build up. Banks have increased their provisions and capital since the 2013 and 2014 asset quality reviews of commercial real estate by DNB, within the framework of the SSM, which has made them less vulnerable to losses. Potential losses are nevertheless still sizeable, given banks' EUR 68 billion exposure to commercial real estate, EUR 34 billion of which is outstanding on the office and retail markets. Given the long maturities of financing arrangements of between five and ten years, it is important for surveyors and banks to take heed of the structural trends on these markets when appraising real estate. In addition, risk management at financial institutions should take account of the increasing heterogeneity in these markets. We will also be looking at this in greater detail in our stress tests.

Chart 2.3 Vacancy rates as a percentage of total supply



Source: PBL Netherlands Environmental Assessment Agency.

2.7.2 Climate change

Climate change poses a potential threat to the financial sector in the longer term. The financial system may be hit as the impacts of climate change materialise. The transition to a sustainable energy supply creates new risks, relating to the adjustment costs to the economy. A specific risk in this context is the deflation of a carbon bubble: a devaluation of CO_2-related assets, also referred to as "stranded assets". This write-down is linked to the potential risk that, to achieve the objectives of the 2015 UN Climate Change Conference, part of the fossil fuels will no longer be extracted. This risk is particularly relevant if and insofar as the energy transition is inadequately anticipated and abrupt. This could also hit financial institutions through the exposures on their balance sheets. Research by DNB has shown that the current exposures of Dutch financial institutions to CO_2-sensitive sectors – and, consequently, to a possible carbon bubble – are considerable, but the risk profile would appear to be limited, although there may be concentration risks at individual institutions.

A gradual transition to a more sustainable economy requires timely and predictable government policy. Transparency – achieved for instance through institutions' unambiguous disclosure of climate risks – and adequate risk pricing can also contribute to a gradual transition. It is essential for financial institutions to factor in these risks in their risk management, also by conducting stress tests. The financial sector can also play a role in facilitating a more sustainable economy, for example by placing demands as a shareholder on the carbon-intensive industry.

Resolution: towards an effective regime

3 Resolution: towards an effective regime

3.1 Introduction

Following a year in which the foundations for the resolution task were laid at the national and European level, the focus is now shifting towards resolution planning and execution. DNB actively contributes to the operations and policy of the Single Resolution Board (SRB). The availability of sufficient loss-absorbing capacity is a key element of the resolution framework. Now that a global minimum requirement has been set for global systemically important banks, consistent implementation of this requirement throughout the EU will be a key priority. The deposit guarantee scheme (DGS) has also been strengthened in the context of the resolution framework. The pre-funded basis and improved position of deposit holders will protect their savings even better. A well-designed European deposit insurance scheme, as the third pillar of the banking union, could help to further minimise the consequences of bank failure for the financial sector and governments.

Section 3.2 explains the division of responsibilities between the SRB and DNB with respect to resolution planning and execution, and sets out the activities scheduled for 2016. Section 3.3 addresses the global standard for loss absorption and describes how it can be implemented throughout the EU. The recent review of the Dutch DGS and the proposal for a European deposit insurance scheme are discussed in Section 3.4.

3.2 SRM on track; BRRD implemented

As of 1 January 2016, the SRB is fully responsible for resolution planning and execution for significant and cross-border banks (SRB banks). DNB supports the SRB in its activities while also focusing on operationalising the various resolution instruments laid down in the Bank Recovery and Resolution Directive (BRRD). DNB will continue its resolution planning for the other Dutch banks of its own accord. An important aspect of this is the definition of a proportional resolution planning framework for smaller institutions, which takes into account their size and role within the financial system.

The group of SRB banks comprises 130 significant banks under the ECB's direct supervision and 15 less significant cross-border banks for which the SRB has replaced the national resolution authorities (NRAs) as the resolution authority from 1 January 2016 onwards. The Dutch SRB banks are ING, Rabobank, ABN AMRO, SNS Bank, Bank Nederlandse Gemeenten, Nederlandse Waterschapsbank and NIBC. DNB prepares and implements all SRB decisions as regards resolution plans and any execution thereof for these banks at a national level. It is the SRB's ambition to draft an initial resolution plan for 90% of the 145 banks under its mandate in 2016.

At the end of 2015, DNB submitted transitional resolution plans for the three largest Dutch banks to the SRB. These plans describe how the resolution authority will intervene in a failing bank, which instruments it will use and what the institution must do in preparation to enable the execution of the plan. In 2016, these transitional plans will be further developed into full – BRRD-compliant – resolution plans under direct management of the SRB. This year, the SRB will be taking its first official decisions on the plans and possible measures to improve resolvability, including a decision on the minimum requirement for own funds and eligible liabilities (MREL, see also Section 3.3). Achieving full resolvability of the banks will not be possible in the short term, given the time needed for implementation of these measures.

Now that the SRB has taken over responsibility for significant and cross-border banks, DNB will focus on operationalising resolution decisions. This includes elaborating the SRM manuals for planning and crisis management and developing guidelines as well as preparing the effective deployment of resolution instruments. In 2016, DNB will focus on operationalising the resolution tools, including the bail-in and transfer instrument. These tools are based on the Act implementing the BRRD, which entered into force on 26 November 2015. DNB intends to publicly consult on its elaboration of the application of BRRD powers.

DNB remains directly responsible for less significant institutions. Experience with resolution planning for a number of medium-sized banks in 2015 has shown that the BRRD imposes strict requirements on the deployment of resolution tools. The public interest test only allows institutions to be resolved if they fulfil critical functions, and if their failure would have material consequences for the economy or financial stability. Applying the resolution tools on less significant institutions is therefore not straightforward. If resolution is not applied, banks go into regular bankruptcy. Should this happen, having a DGS in place with sufficient resources to compensate depositors or to fund a transfer of deposits to other banks to ensure customers' access to their accounts is vital.

DNB is currently determining the scope of the public interest test in order to decide which banks require a resolution plan. In accordance with the proportionality principle, the scope of the resolution plan and the applicable requirements will decrease for banks fulfilling less critical functions. At the same time, DNB favours a consistent application of the public interest test at European level to ensure a harmonised resolution framework and effective use of the Single Resolution Fund's (SRF) limited resources.

On 1 January 2016 the SRF was launched, giving the SRB its own resources for resolution financing, such as supplying guarantees and loans to banks in resolution. In eight years' time, this fund is set to grow to an estimated EUR 55 billion and it will provide for a gradual increase in risk-sharing between the contributions from the various banking union countries. The Dutch financial sector contributed EUR 453 million in 2015.

3.3 From MREL to TLAC

In 2015, the Financial Stability Board (FSB) established an international standard for the total loss absorbing capacity (TLAC) of global systemically important banks (G-SIBs). The new standard will deliver a major contribution to the mitigation of systemic risks in the global banking system.

TLAC consists of a bank's own funds (capital) and specific debt instruments. If a bank fails and must be resolved, TLAC can be used to absorb losses and recapitalise the bank. This means that the costs of failure of a global systemically important bank will as much as possible be borne by the investors (shareholders and creditors) of the bank. The shareholders will be the first to be addressed, then investors in capital instruments, holders of ordinary debt – such as bondholders – and finally, preferential creditors such as savers.

The TLAC standard will be introduced in two stages: As from 1 January 2019, global systemically important banks must meet a weighted TLAC requirement of at least 16%, expressed in risk-weighted assets, as well as an unweighted TLAC requirement of at least 6%, expressed in the same denominator as the leverage ratio. These percentages will be increased to 18% and 6.75%, respectively, as from 1 January 2022.

DNB is in favour of full implementation of the TLAC standard in European legislation. The TLAC standard serves the same purpose as the European MREL, but is more detailed and differs in a number of aspects. Firstly, the TLAC standard sets a minimum level of loss-absorbing capacity for systemically important banks. Secondly, contrary to MREL, only instruments that are eligible for full bail-in may be included in TLAC. This means that debt instruments must in principle be subordinated to senior creditors, because direct bail-in of specific senior creditors is operationally difficult (e.g. in the case of derivatives) or may lead to contamination of the real economy (e.g. in the case of large corporate deposits). Subordination of instruments that are part of TLAC will solve this problem. Moreover, TLAC preserves the buffers' macroprudential function, discourages interbank investment and sets rules for the distribution of loss-absorbing capacity within banking groups.

Various member states are working on national legislation initiatives to change creditor hierarchy with the aim of facilitating easier bail-in of senior debt securities. The Netherlands also investigates whether such an amendment is desirable. DNB calls for a consistent approach at European level.

The European Commission has announced that it will present a proposal in 2016. In DNB's opinion, the TLAC minimum should be set as the lower limit for all systemically important banks to which the bail-in instrument is to apply. This would ensure a level playing field in the Netherlands and Europe. It is essential that the TLAC standard is taken as a minimum standard only, and that the requirements for individual institutions are determined on the basis of their resolution strategy and resolvability. The TLAC regulations on the composition of instruments should also be implemented to ensure that only subordinated instruments are eligible for inclusion in TLAC.

3.4 European DGS

Starting in 2016, the Dutch Deposit Guarantee Scheme (DGS) will operate as a pre-funded system. The guarantee for depositors is extended on a number of points, e.g. it now also covers additional temporary deposits for transactions related to the purchase of a home. These amendments follow on from the implementation into national law of the revised European Directive for deposit guarantee schemes. On 24 November 2015, the European Commission published its proposal for a European deposit insurance scheme (EDIS) as the third pillar of the banking union, in addition to the supervision (SSM) and resolution (SRM) pillars. The proposal includes a process for gradually transferring the funding of the national DGSs to the European level.

With effect from 26 November 2015, the Dutch DGS is based on pre-funding, in order to comply with new European regulations and as a response to the lessons drawn from the financial crisis in line with the recommendations of the De Wit Parliamentary Committee. As from this date, the banks will pay a risk-based contribution to the in 2015 newly established deposit guarantee fund – a legally independent entity outside DNB – on a quarterly basis. The envisaged size of the fund is 0.8% of guaranteed deposits, which at present equals around EUR 3.6 billion. This target should be achieved in 2024.

The protection for depositors has also been improved. The DGS now offers an additional temporary guarantee for deposits directly related to the purchase or sale of a home. These deposits will be covered for EUR 500,000 on top of the regular cover of EUR 100,000 for a period of three months after being made. The scope of application of the guarantee has also been widened to cover the deposits of large corporate depositors, directors and shareholders as well as private individuals up to EUR 100,000. The payment term, which is now 20 business days, is to be gradually reduced to seven business days by 2024.

The revised European Directive has contributed to the further harmonisation of national deposit guarantee schemes. However, to complete the banking union a European deposit guarantee scheme must be created. The European Commission's proposal for the European Deposit Insurance Scheme (EDIS) is a start. The EC proposes a gradual transition from national to European funding. In the initial stage or reinsurance stage, national DGSs would draw in part on the EDIS once their own funds have been depleted. In the second stage, the national DGSs would be co-insured by EDIS. The share borne by EDIS would gradually increase over the co-insurance period until the final stage of full insurance by EDIS in 2024. The Dutch DGS as described above would then be totally replaced by the European fund. The responsibility for the actual execution of the scheme, i.e. reimbursing the depositors, would remain with the national authorities in this stage.

A European DGS will limit the risk of contagion of bank failure towards national banking sectors and governments. Within the banking union, there is a tension between decision-making on resolution at the European level and funding the deposit guarantee scheme at the national level. A common EDIS will make the design of the banking union more consistent, as the final responsibility for all components of the financial safety net will then be at the European level. DNB therefore supports the proposal for an EDIS. At the same time, however, risk-sharing within an EDIS is only appropriate if all participants are able to operate on an equal footing. Implementing further risk-reducing measures is therefore a prerequisite for risk-sharing in the context of an EDIS. Analogous to the set-up of the SRF, the EDIS should also be funded by risk-based contributions at the European level. This requires the risk methodology to be fully harmonised. The EDIS should also have its own back-up system to guarantee that funding can be supplied at all times and to prevent the national DGSs from still having to appeal to their own governments.

In accordance with the scope of the SRF, the EDIS will guarantee the significant banks directly supervised by the ECB as well as all other European banks. The transition to risk-sharing within EDIS in the co-insurance stage should ideally be accompanied by an examination into the soundness of the non-significant banks that are covered by the EDIS. Such an examination will deliver insights into the quality of banking balance sheets and ensure equal starting positions.

Payments: innovations in a digitalising world

4 Payments: innovations in a digitalising world

4.1 Introduction

Social and technological developments, such as ongoing digitalisation, are leading to new payment products and processes and innovations in the payments and securities transfer infrastructure. The challenge from the policy perspective is to use these new opportunities as much as possible, while at the same time mitigating and managing possible risks. This is consistent with DNB's efforts to ensure secure, reliable and efficient transfer of payments and securities.

Having a state-of-the art payments and securities transfer system in place is one of the preconditions of a dynamic economy. Businesses, consumers, public authorities and financial institutions together account for millions of financial transactions daily. They all expect their payment transactions to be executed safely, correctly and efficiently. To this end, payment methods and their underlying infrastructure must be improved and innovated constantly.

Section 4.2 below describes changes in retail payments in more detail. DNB welcomes innovations and has developed an assessment framework for this purpose. A concrete innovation by the payments sector is instant payments, which all users may benefit from, starting in 2019. Instant payments means that cash and non-cash retail payments are processed continuously and in real time, so that payees can use their money directly. Although the use of cash at the till is declining and Dutch consumers are by now using their debit cards as often as they pay in cash, it is socially desirable to ensure that cash continues to function as a means of payment in retail transactions. A research report into the future of cash published in 2015 by the National Forum on the Payment System (NFPS) included recommendations that DNB endorses.

Section 4.3 discusses developments in wholesale payments and securities transactions. Following thorough preparations, the Eurosystem in 2015 launched its TARGET2-Securities (T2S) settlement platform. This new platform enables financial institutions to settle their securities transfers safely and efficiently against payment in central bank money. Central counterparties that play a pivotal role in international securities and derivatives transfers are strengthened across the globe. Cyber threats culminating from ongoing digitalisation are a factor to be reckoned with for financial institutions. DNB is working on boosting the financial sector's cyber resilience. And finally, blockchain technology that is used in the exchange of virtual currency is commanding the attention of the financial sector, including DNB. Its versatility offers opportunities.

4.2 Innovations in retail payments

Retail payments are changing rapidly and DNB encourages improvements in this area. A positive point here is that in a couple of years the Netherlands will see real-time and continuous processing of retail payments. This will contribute to the shift towards electronic retail payments that has been visible for some time. It is socially desirable to ensure that cash continues to function as a means of payment. DNB endorses the MOB's viewpoints and recommendations on the role of cash.

4.2.1 DNB welcomes innovations in payments

The ongoing digitalisation is prompting a great deal of innovation. Digitalisation is taking place in the corporate sector, the public sector and the daily lives of consumers. Mobile devices are playing an increasingly important role. Now that most people in the Netherlands have gone online, the next step will be "the Internet of Things", which allows for an increasing number of devices to be connected to the internet. These smart devices are able to collect (e.g. by means of sensors) and exchange data and take decisions based on the information they collect and exchange. Digitalisation is demanding suitable payment methods, facilitating payment orders from smart devices for instance. Other new forms of payment facilitate person to person payments by mobile phone, or payment of electronic invoices. Technological innovation may also improve transaction security, or the speed of processing at the till, so that payment services will be aligned even better with consumers' needs. This is why DNB is positive towards innovation in payments.

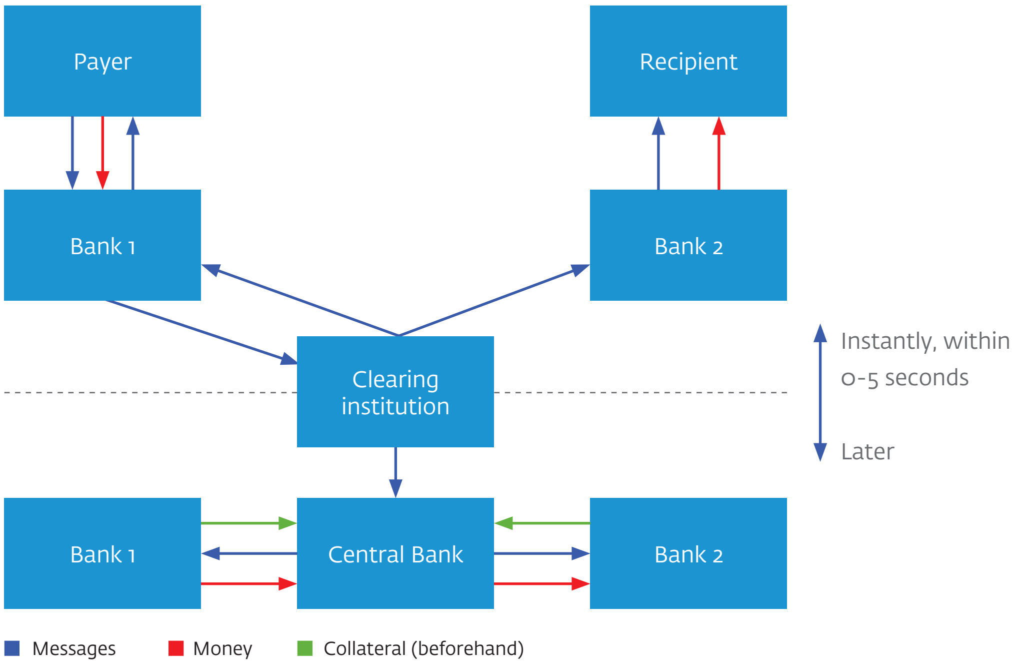
That said, there are also some points for attention in innovation, including security, privacy, accessibility, and general usability. To consider these aspects, DNB has developed an assessment framework that lists the positive and negative effects of innovations in payments. If the assessment results give cause to do so, DNB can remind suppliers to comply with laws and regulations, bring market players together to solve problems, and to bring up themes for discussion in national and international consultative bodies.

4.2.2 Instant payments in the Netherlands

One innovation that is about to come true in the Netherlands is quicker processing of retail payment transactions. In 2015, banks in the Netherlands announced that they intend to facilitate instant payments within four years and want to create new dedicated infrastructure. DNB supports their initiative. Instant payments mean that money transfer orders are processed in seconds, so that payees can use their money directly. This new functionality will be available 24/7 and 365 days a year. It also enables payers to fulfil their obligations directly and with finality, just like cash payments. This is the banking sector's answer to various external developments. Instant payments are possible due to increasing computer power and ongoing digitalisation. Partly due to this, bank customers expect funds, especially by mobile phone or online, to be transferred at such speed they reach recipients immediately. In addition, new European legislation will boost competition in payments services, also from non-bank suppliers.

Instant payments implies a fundamental innovation of payment systems. These have traditionally been equipped for batch processing of transactions that are mutually cleared and settled. This demands some processing time, although it has certainly shortened over the years. Instant payments basically allow for processing of transactions individually and in real time (see Figure 4.1).

Figure 4.1 Instant payment – stylised model of transaction processing



Note: the upper part of the chart illustrates the payer initiates the payment at his or her bank (1), and the clearing institution processing the order. The clearing institution also notifies the payer's bank (1), the recipient's bank (2), and the central bank (settlement institution). Bank (2) then credits the amount to the recipient's account. These transactions take place within seconds. The interbank settlement (lower part of the chart) takes place later. To cover the settlement risk that arises because bank (2) credits the recipient before receiving the money itself, banks deposit collateral with the central bank in advance.

This needs changes in interbank agreements on transaction processing, in clearing and in interbank settlement. DNB expects to introduce an additional settlement mechanism to operate outside of the operating hours of TARGET2, the Eurosystem's settlement mechanism. The new infrastructure will serve as the basis for new payment products and services that individual banks may offer their customers. In the longer term, all retail payments in the Netherlands may be processed via this infrastructure. Seen in this light, the instant payments project has a large strategic significance. Instant payment will substantially improve the efficiency of payments transfers between consumers, businesses and authorities. In addition, it will enable more efficient cash and liquidity management for business users.

Dutch banks are ahead of their peers in this field, although instant, continuous payment processing is now also an explicit policy objective for the ECB. As a result, European banks and clearing institutions are also preparing themselves for instant payments. This is now possible in seven European countries, including the United Kingdom, Sweden and Denmark, and in around 20 countries worldwide. The functionalities and uses of the different instant payments methods, however, vary substantially.

4.2.3 Ongoing shift towards debit card payments

A development that has been visible for some time is the shift in retail payments from cash in favour of debit card payments. In 2015, Dutch consumers were estimated to have paid about half of their retail purchases in cash, against 65% in 2010 (see Chart 4.1). EUR 49 billion in cash was withdrawn at ATMs and bank branches in 2015, a 16% decline on 2010. The shift towards debit card payments is expected to continue, as it makes for easier and quicker payment, also because of the introduction of contactless payment, and consumers are getting used to paying by debit card more and more.

4.2.4 The NFPS's viewpoints and recommendations on cash payments

The shift in retail payments towards debit cards raises the question of the future of cash. The NFPS presented its views in 2015, reiterating its stance that in an environment of increasing debit card payments, it is important to ensure that cash continues to function as a means of payment for retail purchases. It gives various reasons why this is necessary. Specific groups of consumers – including those that are unable to use debit cards, the blind or the visually impaired, or people who budget on the basis of cash – will encounter difficulties if they are unable to pay in cash. Some people prefer cash to electronic payment for privacy reasons. It is also important that cash continues to function in retail payments transfer as it is the only alternative if debit card systems are temporarily down for whatever reason. Although a great deal has been done in recent years to avoid disruptions and to deal with them adequately when they do occur, calamities can never be totally avoided. These are sufficient reasons not to erode the role of cash as a universally accepted means of payment at the till.

Chart 4.1 Fewer cash, more debit card payments

Share in number of retail payments (in %).

Notes: The contributions made by other means of payment, such as credit cards and electronic purses have not been included.

With this in mind, the NFPS wants to influence at an early stage the acceptance of cash by retailers and the expectations that consumers may have in this respect. Without aiming for changes in the current acceptance policy pursued by retailers, the NFPS believes that it is socially desirable if people have a choice whether to pay in cash or by debit card, unless there are specific reasons, such as security, for not accepting cash payments. Nevertheless, the NFPS supports joint initiatives by banks and retailers taken as part of the Covenant on the Payment System aimed at promoting debit card payments in order to enhance the efficiency and safety of retail payments. The NFPS has also assumed that retailers are generally legally free to decide which forms of payment they are prepared to accept, providing they make this clear to consumers beforehand. Refusing to accept cash in situations where consumers are unable to go to other suppliers who do accept cash payment is unreasonably burdensome in the eyes of the NFPS.

The organisations represented in the NFPS committed themselves to emanate the recommendations made by the forum. DNB supports the recommendations made by the NFPS, which also do justice to the fact that the Netherlands is part of the euro area, where it should always be possible to pay for retail purchases in euro notes and coin. The NFPS also decided to continue monitoring periodically the acceptance of cash payments, the availability and accessibility of ATMs and cash deposit facilities. It examines the availability of ATMs at regular intervals. The percentage of residents living within a circle of five kilometres from an

ATM machine remained virtually stable at 99.71% in 2015. In addition, the large Dutch banks have shown a willingness, if necessary, to provide ATMs in areas where residents live more than five kilometres away from a cash point. In 2015, they did so for the first time. The banks will also consider how to curb the costs of their array of ATMs and cash deposit points in a joint effort, while at the same time keeping availability and accessibility up to standard. This is consistent with the general objective to improve the efficiency of cash payments. Big improvements have been made in this respect, in particular in counting and sorting processes and filling and maintenance of ATMs.

4.2.5 More counterfeit banknotes detected

The number of counterfeit euro banknotes detected in the Netherlands has been increasing since 2013. In 2015, 66.500 counterfeit euro banknotes were detected, the majority being €50 banknotes. This is a 37% increase on 2014, resulting in financial damage of some EUR 4.1 million. At 1 in 30,000, the odds of being given a counterfeit banknote remain small, however. Elsewhere in Europe, the number of counterfeit banknotes is also rising, due to internationally active criminal organisations. The Eurosystem put a new 20 euro note into circulation in November 2015 as part of its efforts to combat counterfeiting. This note was the most counterfeited denomination in the previous Europa series. In order to combat terrorist financing, the Council of Ministers asked the European Commission to investigate whether the use of cash for payments exceeding a particular amount can be curbed. In this context, the ECB will reconsider the issue of €500 banknotes.

4.3 Fundamental changes in wholesale payments and securities processing

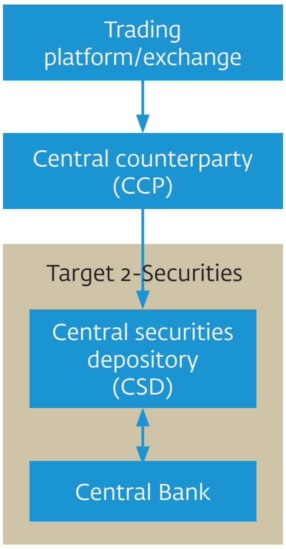
Fundamental changes are also taking place in wholesale payments and securities processing. The Eurosystem launched its new T2S platform for settlement of security transactions in 2015 for instance. Increasingly stringent requirements are being imposed on central counterparties in securities and derivatives transactions, and the effects of digitalisation are also visible in wholesale transactions. Partly due to this, cyberthreats are posing a real risk; for that reason financial institutions should enhance their cyber resilience. Blockchain technology looks promising. This new technique can be used in various areas and can a have profound impact.

4.3.1 TARGET2-Securities launched in stages

After careful preparations, the Eurosystem started operating its TARGET2-Securities (T2S) platform in June 2015. T2S is a centralised European platform for settlement of domestic and cross-border securities transfers against funds held at central banks, known as central bank money. The objective of the T2S project is to harmonise the settlement of securities transactions and to integrate the fragmented European securities settlement infrastructure. It reduces the risks attached to securities processing in Europe and increases the efficiency of the settlement process.

Traditionally, almost each European country has had its own securities settlement infrastructure (see Figure 4.2). A component part of these infrastructures is the central securities depository (CSD), which is Euroclear in the Netherlands. CSDs among other things provide exchange of securities against cash. T2S, that will in time be used by 23 CSDs in Europe, and brings together securities and central bank money of all participating countries, will take over this task. As it would be risky if all CSDs move to T2S at the same time, T2S will be brought into use in four stages. Euroclear Nederland is expected to join up in 2016, and the last group of CSDs is expected to transfer to T2S in 2017.

Figure 4.2 Financial market infrastructures in securities and derivatives transactions and T2S



Several financial market infrastructures are involved in settlement of securities and derivatives transactions:

- A trading platform or exchange sends transactions to a central counterparty (CCP). Some CCPs also accept bilaterally agreed transactions.
- The CCP administrates, nets and guarantees settlement of financial transactions. If transactions involve transfer of securities, the CCP sends instructions to that effect to a central securities depository (CSD).
- The CSD facilitates securities accounts, operates a system for settlement of securities transfers and guarantees simultaneous transfer of cash and securities.
- The central bank keeps funds of all CSDs. All CSDs taking part in T2S settle their transactions against central bank money.

By providing simultaneous delivery-versus-payment, T2S enables settlement of securities transactions without counterparty risk. T2S will also increase the efficiency of the settlement process as domestic and cross-border transactions will be settled centrally on the same platform and securities buyers and sellers can concentrate their portfolios with fewer CSDs, or even a single one. T2S will also boost their liquidity as the affiliated central banks accept as collateral the securities that the participants hold or buy during the business day. Businesses wanting to issue new shares will have access to a larger and more liquid market and may do this with a CSD of their own choice. And finally, T2S may boost competition between CSDs, which is expected to lead to better and less expensive services.

Although T2S will break down a number of barriers to cross-border securities settlement, it will not accomplish a fully integrated European capital market. To achieve this/for that purpose…, European legislation and regulations governing the purchase and holding of securities need to be harmonised further. This is one of the key actions mentioned in the Capital Markets Union Action Plan that the European Commission presented in September 2015.

4.3.2 More stringent requirements for central counterparties

A second fundamental change in the international financial system is the reinforcement of central counterparties (CCPs). Central counterparties, e.g. EuroCCP or ICE Clear Netherlands, administer, net and guarantee settlement of securities and derivatives transactions made by market participants. This limits the likelihood of bankruptcy of one market operator endangering international financial stability. In 2009, G-20 government leaders decided to boost the use of CCPs and to make the use of CCPs mandatory for standard OTC-derivatives contracts. CCPs are considered to be "too important to fail". This is why they are subject to strict standards. Although the likelihood of a CCP failing is in fact very small, a bankruptcy would have big repercussions, partly because of the concentration of transactions in CCPs. This is why policymakers are endeavouring to boost the resilience of CCPs, are ordering recovery plans to be written, and are working on achieving orderly resolution in the unlikely event that a CCP goes bankrupt after all.

The resilience of CCPs can be boosted by means of more ambitious and uniform stress tests. CCPs are already required to perform stress tests to ensure that they continue to have access to sufficient financial resources under extreme circumstances, but these tests still differ. Minimum requirements and standardisation can improve the quality of stress tests, and targeted stimuli are important. If a CCP that gives a bank notice of default, shares in the losses with a small but significant part of its capital, it will have an incentive to manage its risks adequately, while remaining resilient itself.

In the event of its financial resources proving to be inadequate, a CCP must have an adequate recovery plan in place. It could ask for additional contributions from direct participants, may cancel contracts, or use a part of the funds deposited with it. As it is not clear beforehand which strategy should be adopted during a crisis, CCPs are required to have a broad array of recovery instruments at their disposal.

If recovery proves to be impossible, a CCP must be resolved in order for its critical functions to be continued and its losses to be distributed by means of the above instruments among the participants, shareholders and debt holders. As many CCPs offer their services in more than one country, a bankruptcy of one of them could have a severe cross-border impact. This necessitates fine-tuning between the different authorities involved, for instance in resolution colleges. To this end, the European Commission is working on a Directive, and the Financial Stability Board on producing joint principles for resolution of CCPs.

4.3.3 Bolstering the cyber resilience of financial institutions

The financial sector is made up of a digital network of numerous and diverse institutions, including banks and payment service providers, exchanges, and payment processing businesses. These institutions can all fall victim to cyberattacks, which may in turn put other market participants in danger, undermining financial stability in the worst-case scenario. In order to prevent this from happening, DNB is contributing to national and international efforts to encourage financial institutions to bolster their cyber resilience.

At national level, DNB is developing a framework for testing of ICT systems of institutions that are part of the Dutch financial key infrastructure, including DNB itself. The framework includes test methods that not only verify how processes have been structured on paper, but specifically whether measures are achieving the intended effect in practice. The framework is expected to be finalised by mid-2016. In 2017, findings and test results can be shared between the participants and improvement measures can be implemented.

As co-chair of a Basel working group, DNB is contributing towards the development of standards aimed at bolstering the cyber resilience of financial market infrastructures. In November 2015, this working group published its consultative paper Guidance on cyber resilience for financial market infrastructures. The report revolves around five key concepts. It is essential for market infrastructures that management boards and senior management understand cyber risks, implement effective cyber resilience strategies, and are held accountable for these strategies. This requires knowledge of the threat landscape and being aware of one’s own vulnerabilities, which calls for intelligence on cyber threats and a sector-wide test programme. Market infrastructures should also continuously adjust their measures to the changing threat landscape. Their ability to resume critical operations quickly and safely after a disruption is paramount. And finally, the report calls upon the entire financial system to take a coordinated approach to cyber resilience.

4.3.4 Blockchain technology looks promising

Blockchain technology is among the innovations that deserve special attention. It has been used since 2009 in the exchange of virtual currencies such as bitcoin. Blockchain uses a distributed ledger of virtual currency transactions in a network of computers around the world. Mutual transactions on the network are added to the ledger very frequently, with not one central party validating the transactions, but with computers performing this task decentrally. Possible benefits of this infrastructure are low costs, speed and transparency: the ledger can be accessed by all network participants.

New ideas about the alternative uses for blockchain technology are arising. In addition to uses in payments transfer, it may also be applied in the wider financial services industry, or in the transfer and recording of valuables. This notion is also conveyed by a recent report published by the Basel Committee on Payments and Market Infrastructures. Market players in the international financial sector are investing substantial funds in blockchain technology and various pilot projects have been set up. Blockchain technology may impact banking sector business models, but banks may also benefit from new ways of generating turnover and reducing costs. DNB previously pointed out the risks of the use of virtual currencies such as bitcoin, but now recognises the opportunities offered by blockchain technology. Issues including governance and risk mitigation should, however, be further investigated, as well as the possible necessity for regulation.

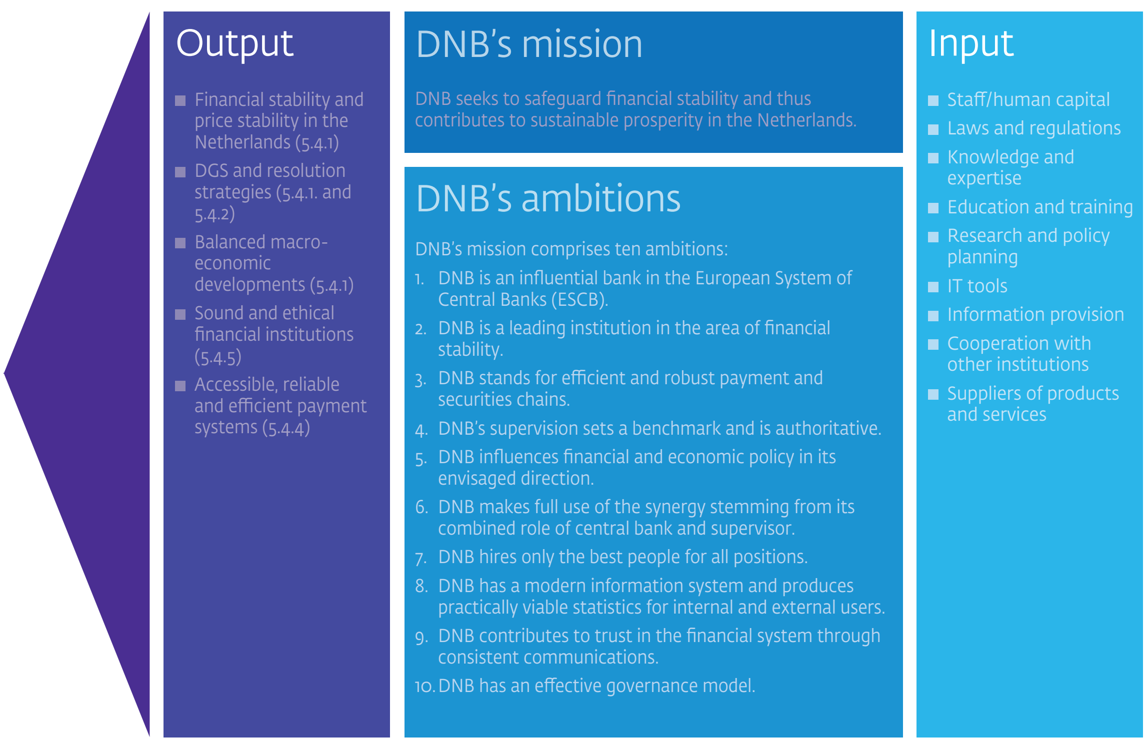
Accountability

5 Accountability

5.1 Introduction

DNB seeks to safeguard financial stability and thus contributes to sustainable prosperity in the Netherlands. Sustainability therefore plays a crucial role in DNB's performance of its four core tasks. As an independent monetary authority and supervisor, DNB works to achieve its tasks by ensuring price stability and balanced macroeconomic development within the euro area. Together with the other central banks in the Eurosystem, DNB is responsible for ensuring a shock-resistant financial system, a secure, reliable and efficient payment system and sound and ethical financial institutions which fulfil their obligations and commitments.

Figure 5.1 Value creation within DNB



Accountability

In this chapter, DNB reports on the main results achieved in 2015. The chapter addresses the way in which corporate social responsibility is embedded into the organisation (see section 5.3), the results achieved (see section 5.4) and internal operational management (see section 5.5), and it concludes with the main risks discerned by DNB, the financial results and costs development. The chapter begins with a brief overview of DNB's governance structure.

5.2 Corporate governance

DNB is a public limited company incorporated under Dutch law. In its capacity as the Dutch central bank, DNB forms part of the European System of Central Banks. The President of DNB is also a member of the Governing Council and the General Council of the European Central Bank (ECB). As the supervisory authority and resolution authority, DNB is an independent public body.

Pursuant to the 1998 Bank Act, DNB is led by a Governing Board consisting of a President and three to five Executive Directors. One of the Executive Directors also chairs the Prudential Supervision Council, and as such has primary responsibility for supervision policy. This Executive Director is also a member of the ECB Supervisory Board, which is responsible for decision-making regarding significant banks within the euro area in the context of the Single Supervisory Mechanism (SSM). Another Executive Director is responsible for Resolution, and is a member of the Single Resolution Board (SRB) in Brussels. Effective from 1 January 2016, the SRB is responsible for taking all resolution decisions in relation to significant banks and cross-border banks within the euro area.

DNB was designated the national resolution authority with effect from 1 January 2015, with responsibility for preparing and implementing the resolution of Dutch banks and certain investment firms. To ensure the resolution function's operational independence from DNB's other functions and to prevent conflicts of interest, one of the members of the Governing Board was appointed Director for Resolution, with the proviso that he cannot at the same time be responsible for duties relating to banking supervision, financial stability or monetary policy. A special voting arrangement applies within the Governing Board, which gives the Executive Director for Resolution a casting vote in certain circumstances. Notwithstanding the special voting proportion, decisions will still be formally taken by the Governing Board of DNB as a collective body and subject to its joint responsibility. A Resolution Council, chaired by the Executive Director for Resolution, was established to support the Governing Board in its deliberations and decision-making process concerning resolution matters. These matters were laid down in 2015 in the Bank Act 1998, DNB's Articles of Association and Rules of Procedure.

A Secretary-Director was appointed under the direct responsibility of the DNB President, with responsibility for leading internal operations and effective management of DNB.

The Supervisory Board (SB) currently comprises seven members. The SB supervises the general course of business at DNB and the Governing Board's policy regarding the implementation of Section 4 of the Bank Act 1998. It is also responsible for adopting the financial statements. The SB has a number of significant powers, including approval of the budget and of certain Governing Board decisions. One SB member is appointed by the Minister of Finance.

The Bank Council functions as a sounding board for the Governing Board. The President reports to the Bank Council on the overall economic and financial development and discusses the policies pursued by DNB with the Bank Council. The Bank Council has thirteen members. Two members of the SB, including the government-appointed member, sit on the Bank Council. The other members include representatives of different sectors of society.

DNB's website provides more information on the current governance structure (http://www.dnb.nl/en/home/index.jsp). Although the Dutch Corporate Governance Code (the Code) only applies to listed companies, DNB strives to implement the principles and best practices from the Code as much as possible. The DNB website provides a table indicating how DNB implements the Code.

5.3 Corporate social responsibility

Corporate social responsibility (CSR) fits in seamlessly with DNB's mission as a monetary authority and supervisor. DNB wishes to contribute to sustainable prosperity. The term 'sustainable' implies that DNB takes more than economic aspects alone into account in its decisions and actions. It follows from DNB's mission that it considers not just the present generation, but also future generations, in the Netherlands and elsewhere. DNB takes social and ecological aspects (People, Planet, Profit) into account in its decision-making, a broad view that is essential in DNB's commitment to sustainable prosperity.

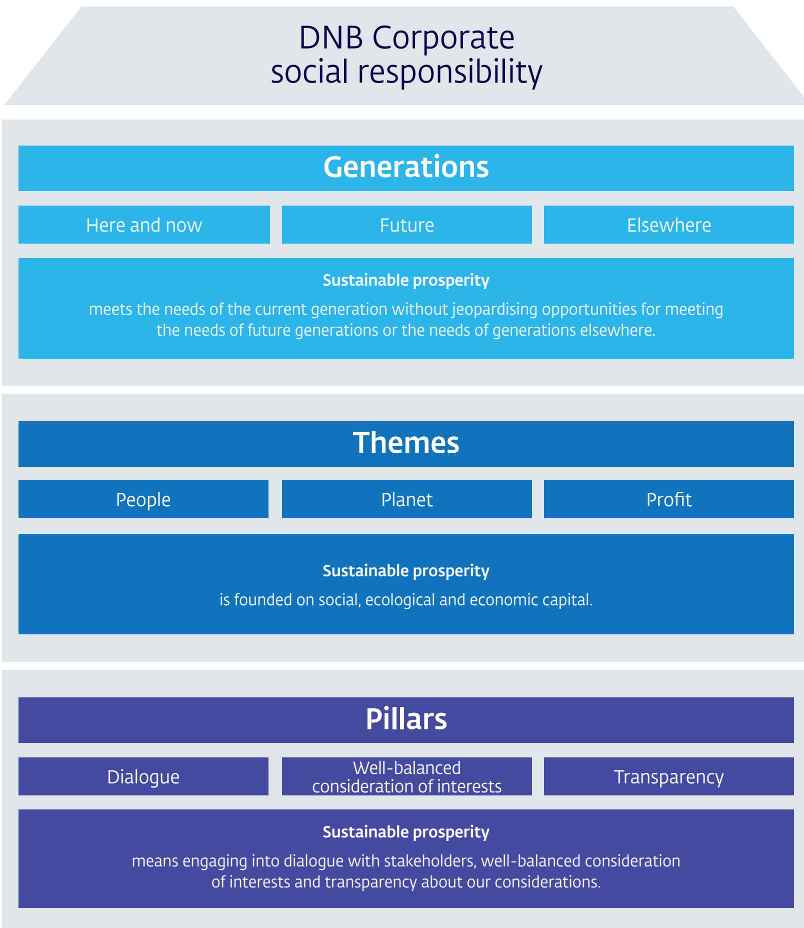
DNB aims to be as transparent as possible about its own actions and choices, as this offers the possibility of engaging into dialogue with the parties involved (see Figure 5.2).

The long-held desire to embed CSR not just in DNB's operational management but also in its core tasks was given tangible form in 2015 through the establishment of a CSR Committee. The remit, composition and working methods of the Committee were laid down in a charter. The Committee comprises a number of divisional directors from DNB's core tasks and internal operations, and is supported by a network of contacts in various divisions. The task of the Committee is to update the CSR policy annually, to promote its integration into DNB's core duties, and to oversee its implementation. This broadening of focus is the most important CSR policy change compared with 2014. All DNB's CSR-related activities were documented in 2015.

Box 5.1 Dilemma: transparency

DNB wants to be transparent about its supervisory interventions, as transparency can contribute to the restoration of trust (see Figure 5.2). However, transparency is limited by confidentiality restrictions and the paradox of trust: confidential supervisory information that may be valuable to the public cannot be disclosed, because expressing our concerns about a specific supervised institution in public may compromise financial stability.

Figure 5.2 DNB's CSR policy



While the Committee functions as a driving force behind these activities, the different divisions within DNB remain responsible for implementation. Progress is monitored in the regular planning and control cycle. The Governing Board adopts the CSR policy and reporting annually. The Supervisory Board keeps track of the progress of the CSR policy among other things through the periodic reports.

CSR results

DNB did not manage to achieve all CSR goals set for 2015. These were encapsulated in a materiality analysis, which plotted them against the wishes of stakeholders (see Figure 5.1 in the Annual Report 2014). The most important topics were restoration of trust, sound and ethical financial institutions and research geared to sustainability.

Too little progress was made in 2015 in restoring public trust in the financial sector. Although capital positions of banks have been strengthened recently, the financial position of pension funds and insurers remains vulnerable. DNB will continue to focus its efforts on strengthening trust, partly through the SSM and as the national supervisory authority. Through speeches and other activities, members of the Governing Board convey the message that clarity about the financial resilience, integrity and sustainability of the financial sector is crucial for the longer term.

Business models, integrity and sustainability were key focus areas in DNB's supervision in 2015. DNB carried out in-depth examinations on these themes in the various supervised sectors, and found that the business models in all sectors continue to demand attention. Integrity also needs to be placed higher on the agendas of boards and internal supervisors. DNB compiled a first inventory in 2015 of sustainable investment by pension funds; observed good practices will be shared. At the end of 2015, the idea was launched of founding a sustainable funding platform to be chaired by DNB. The first meeting of this form will take place in the first quarter of 2016.

DNB also carried out a study in 2015 on the role of energy in the economy, the economic impact of the necessary transition to sustainable energy supply and the design of an energy and climate policy. The potential risk posed by climate change to the financial sector was also explored. These two studies mark an important first step in embedding sustainability in DNB's core tasks. The findings will be presented nationally and internationally in 2016.

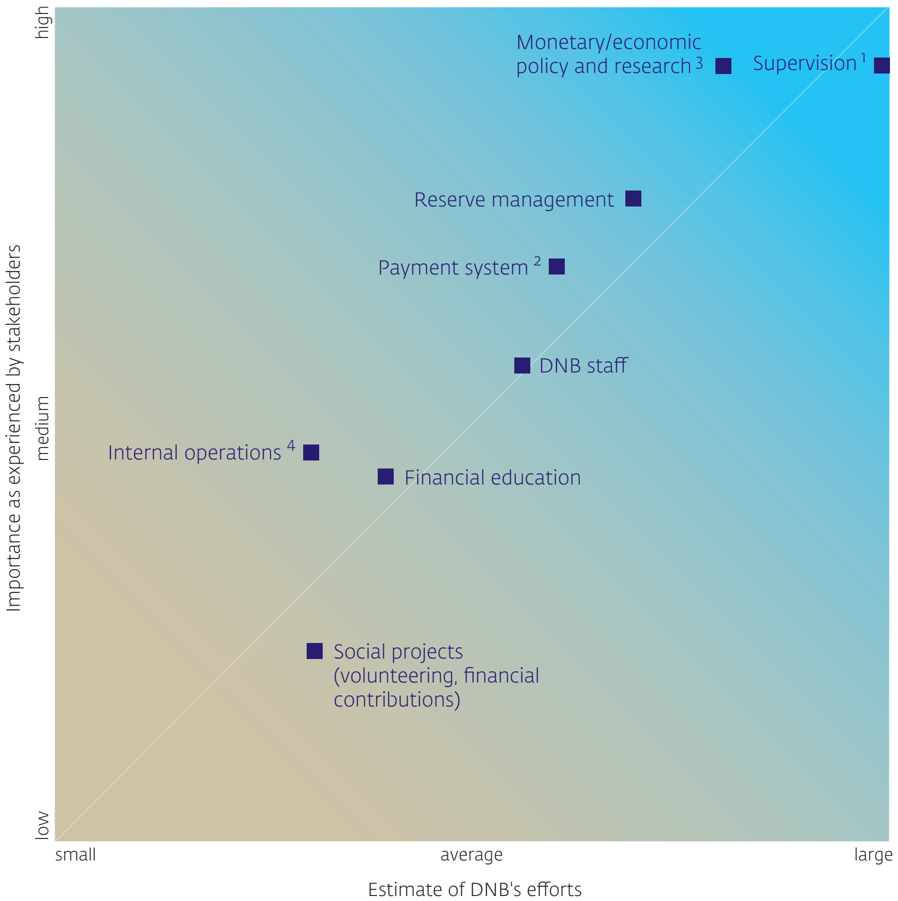
See Table 1 in the Appendix to this Annual Report for a list of all objectives and results.

Stakeholder dialogue 2016

In early 2016 DNB held five roundtable sessions with stakeholders to discuss the importance of CSR in five areas: supervision, monetary policy, reserve management, payments and internal operations. The sessions were attended by representatives of financial institutions, sector associations, government agencies (ministries and the Netherlands Court of Audit), consumer organisations and academics. The sessions were chaired by Division Directors from the CSR Committee, and one of the Supervisory Board members attended one of the sessions.

Stakeholders endorse the focus on embedding CSR in DNB's core tasks, and expect DNB to set an example in its own operations ('You expect DNB to take the lead', and 'DNB should be able to set an example for the market as regards its asset management'). According to the participants, DNB has more impact through its core tasks than through its internal operations.

Figure 5.3 Outcome of stakeholder dialogue



Notes:

1 In this context, 'Supervision' means prudential and integrity supervision.
2 'Payment system' relates to an accessible and available, safe and reliable, efficient and environmentally friendly payment system
3 The study covers various topics, including energy transition and redistribution of prosperity.
4 This includes sustainable procurement, energy consumption and carbon footprint.

Source: DNB.

A number of stakeholders prefer to see DNB as a catalyst for a sustainable financial sector. Several warning notes were also sounded: if DNB plays too much of a steering role without this being enshrined in a clear legislative mandate, this could cause confusion and have an undesirable influence on the effectiveness of the existing supervisory relationship.

The stakeholders used a rating system to indicate how much importance they attach to the core tasks and operations and the efforts they expect DNB to make in this regard. The outcomes are shown in Figure 5.3.

The stakeholders put forward a wealth of ideas for attention in the future, such as:

- Continue to devote attention to analyses of income distribution and redistribution of prosperity between generations.
- Broaden risk analyses to include sustainability aspects. Take account of best practices in this regard.
- Analyse the returns of sustainable and non-sustainable business models within the financial sector.
- Make the way in which DNB embeds CSR in its core tasks more transparent.

The outcomes of the stakeholder dialogue provided a substantial building block for the materiality analysis that was prepared by the CSR Committee. This will provide the input for the CSR agenda for 2016, which will be adopted by the Governing Board in the first quarter of 2016. Based on this agenda, DNB will determine how it will render account of its CRS objectives and results for the short and longer term in its 2016 Annual Report. DNB will base the choices for its accounting framework on GRI G4, and discuss them with stakeholders in 2017.

See Table 2 in the Appendix to this Annual Report for a general overview of the various dialogues held between DNB and stakeholders each year.

5.4 Results achieved in DNB's core tasks

5.4.1 Financial stability

DNB is responsible for overseeing financial stability in the Netherlands – an essential precondition for a balanced economic development. Together with price stability (see section 5.4.3), financial stability forms the basis on which businesses and households take their short-term and long-term economic decisions. Imbalanced developments, such as boom-bust cycles in the financial sector, hamper this decision-making and may result in substantial economic and financial damage to society at large. Moreover, such cycles may encourage non-sustainable deployment of resources.

DNB is able to deploy macroprudential instruments to safeguard financial stability. With respect to banks, for example, DNB has the ability to impose higher capital buffers on systemically important banks, introducing a countercyclical capital buffer (CCyB) and raising sectoral risk weightings. At the end of 2015, DNB added BNG Bank to the list of systemically important banks and imposed a systemic risk buffer of 1% on this bank. The other systemically important banks, i.e. ING Bank, Rabobank and ABN AMRO Bank, already had a systemic risk buffer of 3% of risk-weighted assets imposed on them in 2014, and SNS Bank a systemic risk buffer of 1%. From 2016, DNB will take a decision each quarter on the size of the CCyB. On 1 January 2016, the CCyB was set at 0%; neither the lending volume nor other indicators – such as prices of residential and commercial real estate – currently show signs of excessive increases.

In the Overview of Financial Stability (OFS), DNB outlines risks that affect groups of institutions or entire sectors within the Dutch financial system, and that could eventually disrupt the economy. In 2015 the OFS devoted special attention to the low interest rates, the reduced liquidity of the financial markets, the Dutch commercial property market, the role of governance and variable remuneration. The OFS also covered the ongoing policy debate concerning bail-in of systemically important banks and the preferential treatment of national debt. The OFS also covered more general external risks, such as a resurgence of the European debt crisis, geopolitical unrest, a slowdown in growth in China and the tightening of monetary policy in the United States that was being anticipated at the time of its publication. Based on the risk analysis in the OFS, operational supervision determines whether mitigating actions at individual institutions are required (macro-micro link).

Important risks to financial stability are also discussed in the Financial Stability Committee (FSC), in which DNB, the AFM and the Ministry of Finance are represented, under the chairmanship of DNB's President Klaas Knot. The FSC advised the government in 2015 to gradually reduce the LTV limit for mortgage loans further after 2018 to 90% by continuing the present rate of reduction of one percentage point per year. DNB's Occasional Study entitled 'Effects of further reductions in the LTV limit' shows that reducing the maximum permitted loan-to-value ratio for mortgage loans reduces the risk of negative equity (see section 5.2.1). These high LTV ratios make the balance sheets of banks and households vulnerable and are also associated with larger fluctuations in house prices and in the real economy. The FSC also addressed the financial stability risks resulting from the prolonged low interest rates (making it harder for insurers and pension funds to meet their future commitments) and habituation to these low levels, which could lead to extensive debt financing and increasing vulnerability to interest rate increases. The Committee also devoted attention to other risks, for example stemming from cyber threats, derivative market reforms, unequal tax treatment of own and borrowed capital, and the shadow banking system.

On an international level, DNB is actively working on the implementation and further development of macroprudential policy. At a global level, the Financial Stability Board (FSB) is working on rules and regulations to mitigate the systemic risks arising from e.g. shadow banking and financial innovation. DNB has a seat on the board and in various committees and working groups, and contributed to the new international standard for total loss absorbing capacity (TLAC) for global systemically important banks (G-SIBs) in 2015. Macroprudential policy remains a national task due to the various financial cycles and structural risks, but in some cases European bodies may impose supplementary measures tightening national regulations. European countries work together in the European Systemic Risk Board (ESRB). DNB also sits on the General Board of the ESRB. In 2015 the ESRB Instruments Working Group (IWG), chaired by DNB, worked on the development of macroprudential measures for non-bank institutions, such as margin requirements for repo transactions, and leverage and liquidity standards for investment funds. The member countries of the Single Supervisory Mechanism (SSM) coordinate their macroprudential measures mainly through the ECB's Financial Stability Committee (FSC) and the Macro-Prudential Forum (MPF).

DNB is responsible for implementing the deposit guarantee scheme (DGS), which guarantees savings deposits up to EUR 100,000 per account holder per bank. The implementation decree for the European DGS Directive came into force in the Netherlands on 26 November 2015, thereby creating an ex-ante, risk-based deposit guarantee scheme in the Netherlands. The scheme will be funded through the newly formed deposit guarantee fund. DNB remains the competent authority in the Netherlands and in that capacity is responsible among other things for deciding the amount of the risk-weighted premiums that banks pay into the fund, and for the activation of the DGS. DNB will levy the first premiums in 2016.

5.4.2 Resolution

1 January 2015 marked the official launch of both the National Resolution Authority (NRA) at DNB and the Single Resolution Mechanism (SRM) and Single Resolution Board (SRB) in Europe. The SRB and DNB's Resolution Division have been working simultaneously on creating resolution frameworks, building capacity and developing resolution plans. DNB actively participated in SRM policy planning, for example in compiling the manuals for resolution planning and crisis management, and the framework for cooperation and consultation with the C and the ECB within the SRM.

At European level, DNB contributed to setting up a harmonised framework for resolution planning and execution, including the standard for setting the minimum requirement for own funds and eligible liabilities (MREL).

DNB has drafted transitional resolution plans for ING Bank, Rabobank and ABN AMRO and submitted them to the SRB, and has determined an initial resolution strategy for a number of other Dutch banks. Since the transposition of the Directive on the Recovery and Resolution of Banks into Dutch law on 26 November 2015, DNB now also has the authority and the tools to take charge of the resolution of financial institutions. DNB has made a start on operationalising the resolution system, with the focus being on the bail-in instrument. Finally, DNB set up the national resolution fund in 2015 and collected the first contributions from financial institutions. Most of these contributions were in turn paid into the Single Resolution Fund in January 2016.

5.4.3 Monetary tasks

As a member of the Eurosystem, DNB contributes to the development and implementation of monetary policy measures. Monetary policy is aimed at price stability over the medium term, which is defined as inflation being below but close to 2%. Price stability is an important precondition for businesses and households to invest in their future with certainty and confidence. In this way, monetary policy contributes to the retention of economic and human capital and hence to current and future prosperity in the Netherlands and the euro area.

Despite a gradual economic recovery in the euro area, inflation and inflation expectations remained at low levels in 2015. In the course of the year, the Eurosystem's central banks started their large-scale purchasing of government bonds issued by euro area governments and European institutions, in addition to existing asset purchase programmes. The programme involves the purchase of assets totalling EUR 60 billion per month, and around 5.7% of these consist of Dutch government bonds. Most of these will be purchased by DNB and the remainder by the ECB. The intention is to continue the purchases up to March 2017, and at least until the ECB sees evidence of a persistent change in the course of inflation that is in line with its target. In December 2015, the ECB also decided to lower the deposit facility rate to -0.3%.

In the short term, the accommodative monetary policy will support economic growth in the euro area, but only politicians can take measures to provide a lasting solution to the economic problems in the currency union, for example to increase the growth potential and improve the institutional structure of the Economic and Monetary Union. Ensuring that monetary policy dovetails smoothly with other policy domains in the Netherlands and Europe demands transparency about the monetary policy pursued, vis-à-vis both stakeholders and the wider public. To increase the transparency of the decision-making with respect to monetary measures, in 2015 the ECB began publishing the minutes of its meetings. DNB also highlighted the social impact and dilemmas underlying monetary measures in 2015 in its DNBulletins, interviews, speeches and external presentations. DNB's President Klaas Knot also provided further information on the ECB asset purchase programme in a public hearing in the Lower House of the Dutch Parliament. Last but not least, DNB kept the government regularly informed about monetary policy, for example in the regular meetings between the President and the Minister of Finance.

Advisory role in economic policies

In addition to its monetary duties DNB also has an advisory role, in particular with respect to economic policy discussions. DNB seeks to deploy its knowledge in particular to promote sustainable and stable economic development.

In 2015, DNB delivered a contribution in four economic policy areas. For example in its Occasional Study entitled 'Effects of further reductions in the LTV limit'. DNB also made an active contribution to the national pensions dialogue. A position paper was drafted in early 2015 in which five features of a sustainable pension system were put forward: clear ownership

Box 5.2 Dilemmas in implementing monetary measures

The inflation outlook in the near term is so low that an accommodative monetary policy is called for. However, continued low interest rates and substantial unconventional measures, such as the asset purchase programme, can have the unintended effect of reducing the incentive for governments and the private sector to implement structural reforms and pursue sound financial management. Moreover, an accommodative monetary policy may encourage excessive risk-seeking behaviour by investors, as the search for higher returns may go hand in hand with the creation of bubbles in certain market segments. There are also potential redistribution effects: the low interest rates exacerbate the problems for pension funds and could contribute to growing inequality through rapidly rising asset prices (houses and shares).

rights, balanced risk-sharing within the pension collective, more scope for customisation to match pensions to the needs of pension fund members, the contribution to economic stability and a broader pension saving obligation. Within the Social and Economic Council of the Netherlands (SER), DNB also contributed to the further discussions on the future of the pension system. This culminated in the publication in early 2015 of an SER report on the future of the pension system ('Toekomst Pensioenstelsel'). Work is currently under way on a follow-up report.

In its Occasional Study entitled 'Wealth formation of Dutch households: a policy assessment', DNB drew attention to the fact that Dutch households have long balance sheets: they save and invest considerable sums and at the same time maintain high levels of debt. This renders them vulnerable to financial shocks. High debt ratios can also exacerbate the arbitrary redistributive effect that fluctuations in house prices have on household wealth; if the tax incentives for saving and borrowing are reduced, this will prompt households to hold shorter balance sheets.

Finally, DNB carried out a study in 2015 on the role of energy in the economy, the economic impact of the necessary transition to a sustainable energy supply and the design of an energy and climate policy. The findings were be published in early 2016. DNB's Economic Developments and Outlook focused attention on current societal developments such as the reduction in gas production in Groningen, the slow improvement in unemployment and the impact of the flow of refugees on the economy.

With a view to preparing and promoting its policy advice, DNB actively engaged in dialogue with its stakeholders, for example by giving presentations and organising expert meetings and conferences. DNBulletins, which summarise DNB's policy advice for the general public, received ample coverage in newspapers, on television and in social media.

Research and models

DNB carries out research on relevant topics such as the real economy, inflation, financial markets and the payment system. With its research activities, DNB contributes to high-quality economic policy advice and decision-making on monetary policy. Examples include a recent study into the effects of unconventional monetary policy and international comparative research into income inequality.

Research also makes a key contribution to the construction and adaptation of econometric models, such as the DELFI model, which DNB uses to predict and interpret developments in the Dutch economy and to extrapolate the effects of different policy choices or changes in international economic developments. These estimates and interpretations in turn provide input for DNB's Economic Developments and Outlook and its policy advice. In order to familiarise a wider public with the DELFI model, in September 2015 DNB published the DELFI simulation tool on its website. This tool allows school pupils, students, teachers, journalists and anyone else interested in macroeconomics to calculate for themselves the impact of economic shocks or policy measures.

The model has been modified to include factors for modelling consumer confidence, and can now also help to study the effects of non-economic factors, such as the refugee crisis, on consumer spending and the housing market. The model was also expanded further in relation to the banking and pensions sector in order to better describe the interaction between real and financial developments.

As well as the comprehensive DELFI model, which describes many aspects of the Dutch economy, DNB also maintains and develops smaller econometric models focusing on a single specific aspect of the economy. The aim of such models is to make short-term forecasts of economic growth in the Netherlands in the current or next quarter or analysing changes in the inflation rate. An indicator for the financial cycle was also developed in 2015. Its purpose is to capture the broad development of the financial system over time in a single summarising measure.

5.4.4 Payments

DNB actively promotes a safe, reliable and efficient payment system in the Netherlands and Europe. In the area of security, DNB produced a world first in the year under review with its new 'Echt of Vals' ('true or counterfeit') app, which enables the user to check the authenticity of euro banknotes using their smartphone. DNB carried out research last year in collaboration with the industry on an Intelligent Banknote Neutralisation System, which renders banknotes unusable in the event of an attack.

Organisations representing providers and users of payment services come together in the National Forum on the Payment System (Maatschappelijk Overleg Betalingsverkeer – MOB), a consultative body with the aim of promoting the efficiency, security, reliability and accessibility of the Dutch payment system. DNB functions as the chair and secretary of the Forum, which works to ensure the accessibility of payment products, in particular for vulnerable groups such as the elderly and blind people. In 2015, the MOB concluded that it is still important for society that cash continues to function adequately as a means of payment, even in an age when the use of debit cards is growing steadily. The MOB researched the accessibility of ATMs in 2015. Despite the reduction in the number of ATMs, the percentage of Dutch people living within a five-kilometre radius of a bank or non-bank ATM is still high, at 99.71%.

The 'Payable' platform was set up to promote standardisation of ATMs in Europe and to convey the message to EU bodies such as the European Commission and European Parliament. A large number of European organisations are supporting this initiative.

In the autumn of 2015, DNB hosted an international conference on financial inclusion. Agreement was reached on a broad definition of this concept, which clearly implies that financial inclusion is about sustainable products and permanent, structural solutions: 'Financial inclusion ensures sustainable access to, and use of, appropriate financial services for all people and businesses at affordable cost.'

The MOB also carried out a great deal of work last year to improve the robustness and availability of the payment infrastructure. The availability of online banking, iDEAL and debit card payments has increased, partly thanks to improvements such as the decoupling of the iDEAL and online banking infrastructures, the promoting of dual telecom connections for retailers and increased transparency concerning availability.

Another development aimed at ensuring the robustness of the payment system was the addition of a clause in Section 3:17 of the Financial Supervision Act (Wet op het financieel toezicht – Wft) on 1 January 2015 stipulating that banks, payment and electronic money institutions are jointly responsible for the adequate functioning of the payment system. DNB drew up the 'Regulation on oversight of the smooth operation of the payment system' for this, which was published in the Government Gazette (Staatscourant) following consultation with the ECB and other stakeholders. DNB will be responsible for risk-based oversight based on this Regulation, which prescribes an availability standard of 99.88% during peak hours for time-critical payment orders.
Innovation plays a key role in ensuring that the payment system is and remains accessible to everyone, and DNB accordingly set up an innovation evaluation framework in the year under review through the MOB. The framework makes it possible to decide whether certain innovations need to be encouraged or discouraged, or whether no action is necessary.

Ecology and the payment system

DNB aims to limit the ecological impact of the payment system as much as possible, for example by promoting the efficient use of banknotes and coins by encouraging countries to buy and sell coins to and from each other in the event of surpluses and shortages, rather than destroying them and striking new ones. By way of an experiment, when the new 20 euro note was introduced in the Eurosystem, DNB also kept the old 20 euro notes that were still fit for purpose in circulation. DNB actively works to reduce the transport of banknotes, by making it possible for supermarket till receipts to be reused in ATMs at the same location. DNB also encourages matching, where banks exchange banknotes among themselves instead of DNB collecting and distributing them. This led to a reduction in the number of banknotes transported and sorted at DNB from 530 million in 2014 to 465 million in 2015. Finally, in the banknote production commissioned by DNB itself, 40% sustainable cotton was used in 2015. The target for 2016 is a minimum of 50% sustainable cotton, and DNB's ambition is to raise the percentage of sustainable cotton in its banknotes to 100% by 2019 at the latest. DNB is carrying out research on specific coatings to maximise the durability of banknotes. To date, these coatings have been used on the new 5 and 10 euro notes.

5.4.5 Supervision

As a supervisor, DNB promotes sound and ethical financial institutions that live up to their obligations and deliver on their promises. DNB is committed to maintaining a healthy and sustainable financial sector. Firstly, it is important that the financial sector adequately fulfils its public role by ensuring that financial products and services contribute fully to stable and sustainable economic development. Secondly, a sustainable financial sector must carefully weigh the interests of all stakeholders. Transparency, integrity and balanced decision-making are key here. Finally, sustainability means that, as well as acting responsibly today, financial institutions must pay sufficient attention to developments in the longer term, to ensure that they are able to meet their obligations and deliver on their promises both now and in the future.

Banks have made major strides in increasing their financial resilience, but the financial position of insurers and pension funds still demands particular attention. In 2015 DNB contributed to the restoration of trust by implementing new laws and regulations, thereby largely completing the post-crisis reform agenda. The banking sector has considerably improved its financial resilience by implementing the stricter laws and regulations (migration to Basel III standards, begun in 2014 and completely phased in by 2019). Second, the TLAC standards and MREL requirements (see section 5.4.1) provide additional shock-absorbing capacity for the banking sector. Solvency II, which came into force on 1 January 2016, creates greater transparency regarding the financial position of insurance operators. This is especially relevant because the earnings models of insurers are under pressure. With regard to pension funds, DNB ensured that institutions made sufficient progress in 2015 in the implementation of the new Financial Assessment Framework. The average funding ratio in the pensions sector was still inadequate in 2015. Although an evaluation of the recovery plans revealed that pension curtailments were not necessary, 2015 was a lost year in terms of recovery, and the risk of pension cuts has therefore increased markedly.

Restoration of trust

Financial institutions need to make further efforts to strengthen the integrity of the sector and restore the trust of society. Ethical operational management of financial institutions is an important factor in winning back that trust. Although the importance of integrity for a healthy financial sector is broadly endorsed, the control of integrity risks such as money laundering, terrorist financing, conflicts of interest and fraud currently leaves something to be desired. Particular attention is needed for these risks in the trust sector.

More generally, transparency, realistic expectations and a focus on the interests of the customer are essential for building lasting trust in the financial sector in society. Although financial institutions have started to move in the right direction here, opinion polls reveal that public trust in the financial sector is still low and that additional efforts will be needed to restore it.

Box 5.3 Dilemma: regulatory burden

The surfeit of new laws and regulations needs to be seen in the perspective of the 'overdue maintenance' in the period before the financial crisis. The increase in legislation and regulations after the financial crisis can be largely explained by the regulatory shortcomings following the deregulation that preceded the crisis. The now largely completed reform agenda was necessary in order to improve the resilience of the financial sector. At the same time, it is important to keep in mind the potential drawbacks of regulation, and to ensure that it is not overly complex, disjointed or procyclical. Another lesson from the crisis also needs to be kept clearly in mind: both supervision and legislation and regulations need to be more forward-looking, which means focusing sufficient attention on future risks such as the growing vacancy rates in the commercial property sector, technological innovation in the financial sector and the impact of climate change and climate policy on financial institutions.

Box 5.4 Dilemma: carbon bubble

Climate change and climate policy pose a potential threat to the financial sector. Climate change increases the risk of physical damage caused by extreme weather conditions. These climate risks can impact on financial institutions by damaging their investments or – in the case of non-life insurers – through their primary activities. Climate policy aimed at more sustainable energy mitigates these risks, but if this policy comes into force without warning it could also cause the bursting of a 'carbon bubble'. The 'carbon bubble' hypothesis posits that the value of fossil fuel reserves could be partly nullified by new climate agreements, forcing businesses that already discounted expected future profits on fossil fuels to downgrade their profit projections.

SSM

In 2015 DNB played an active role in the first, successful year of European banking supervision. Since 4 November 2014, the SSM has exercised direct supervision of all significant institutions (SIBs) in the SSM countries. The supervision of these institutions is carried out by Joint Supervisory Teams, in which supervisors from the ECB and national supervisory authorities work together. The SSM also supervises smaller banks; this supervision is primarily carried out by the national supervisory authorities. In the first place this means that DNB, via the Supervisory Board (SB), shares in the decision-making on the supervision of all Dutch and non-Dutch banks in the SSM area, and also has primary responsibility for decision-making in relation to less significant institutions. The Greek crisis is an example of a challenge that the SSM successfully addressed. This crisis led to new comprehensive assessments (CAs) for the four Greek SIs. The outcomes of the CAs were used to assess the capital requirements of these banks and to determine how they would meet those requirements.

DNB advocated further harmonisation of the supervisory approach within the SSM, with a focus on combining ‘the best of different worlds’. Major progress was made in the further harmonisation of supervision in the SSM’s first year. Banking supervision within the EU has evolved from a situation in which 19 Member States applied different supervisory methods. Banking supervision under the SSM is now exercised on the basis of a common Supervisory Manual. One area where major progress has been made in this regard is the Supervisory Review and Evaluation Process (SREP), which focuses on the adequacy of banks’ risk management. A project was also launched within the SSM last year aimed at further harmonising the way in which European supervisory regulations (CRD IV/CRR) are applied. An important principle here is the creation of a level playing field in which banks have to meet the same standards wherever they are located. During the development of the supervisory approach by the SSM, DNB advocated combining the strengths of the different national supervisory practices, including valuable elements from DNB’s own supervisory practice, such as the supervision of business models and strategy, attention for fintech, supervision of conduct and culture and recognition of the importance of screening board members in order to further improve the quality of senior management in the financial sector. At the same time, DNB’s own supervision has been strengthened, for example through more in-depth on-site examinations focusing on specific areas such as credit risk or risk management. Initial experiences with this enhanced approach have been positive: the on-site examinations have led to more thorough analyses and clearer insights, to which specific supervisory actions can then be linked.

Supervisory priorities

As well as the focus on the SSM, DNB also worked on the other priorities identified in the Supervisory Strategy 2014-2018 strengthening the supervisory approach. To sharpen the focus on integrity, DNB developed a structured process for reporting incidents. This not only enables incidents to be tackled more quickly, but also makes it possible to address risks in a more targeted way. DNB also made progress in increasing transparency where possible. The publication of the 'Supervision Outlook' and the 'State of Supervision' was an important initiative here, in which the sector and relevant government ministries were consulted at an early stage. Last but not least, DNB enhanced its analysis further, for example through its on-site examinations.

DNB also used targeted examinations in 2015 aimed at encouraging sound and more ethical operational management by financial institutions. In addition to the regular supervision focusing on general themes such as compliance with existing regulations and the establishment of capital requirements, each year DNB also carries out a number of thematic examinations aimed at identifying and reducing specific risks in selected groups of institutions. Examples of thematic examinations carried out by DNB in 2015 include improving the quality of banks' loan portfolios, identifying and mitigating the risks of persistently low interest rates and a search for yield by pension funds and insurers, better cross-sectoral embedding of integrity in the establishment and use of various financial benchmarks, the potential implications of fintech for the financial sector and, as described above, preparing the financial sector for new laws and regulations. DNB carried out a first inventory of how pension funds engage in sustainable investment in 2015. In 2016 DNB will increase its attention for sustainable investment by presenting the findings of this inventory and engaging in dialogue with pension funds (for example in roundtable sessions) on two questions: what are the challenges facing pension funds and what practices are applied in the sector? Pension funds lacking a clear vision will be challenged to speak out on sustainability. This will reduce the financial, legal and reputational risks that ensue from having no or an incomplete sustainability policy, but will above all contribute to a more sustainable and more balanced sector.

5.4.6 Statistics

DNB's Statistics Division supports DNB in the performance of its national and European duties in the areas of monetary policy, financial stability, payments and supervision – all policy areas where the importance of data is growing, and especially granular data. The collection of individual mortgage data from banks was streamlined further in the year under review, and an appropriate legal framework was developed in close collaboration with Statistics Netherlands (CBS). The ECB will focus on collecting individual credit data from businesses; draft legislation was published for this at the end of 2015.

International developments in supervision are also leading to more, increasingly complex reporting requirements. New, harmonised reports were introduced in 2015 for European banking supervision, including reports on the liquidity positions of banks. DNB shared its supervisory data on non-significant Dutch banks with the ECB, and data were collected for the first time on the attribution of the costs of ECB supervision and of the new national and European resolution authorities. In preparation for the introduction of Solvency II in 2016, insurers compiled preparatory annual and quarterly reports based on the harmonised European reporting framework developed by EIOPA. In collaboration with the Netherlands Authority for the Financial Markets (AFM), data were collected for the first time on the activities of asset managers and alternative investment funds, based on the European directive.

Major changes are also taking place in the area of macroeconomic statistics. Based on amendments made to the ECB legislation last year, the monetary, interest rate and payment statistics (as published by DNB on its website) now meet the most up-to-date policy requirements. In early 2015 the Netherlands also became the first country to meet the highest dissemination standard set by the IMF (SDDS Plus), which was created especially for countries with systemically important financial sectors. On a national level, DNB and CBS further intensified their cooperation, including through improved source coordination. The future chain integration plans were elaborated in more detail and presented nationally and internationally. The cooperation creates a clear and logical division of tasks and is aimed at eliminating overlaps in data collection and ensuring complete consistency between the balance of payments and the national accounts.

Finally, a state-of-the-art data infrastructure was completed in the year under review, enabling new challenges, such as the growing use of large databases and the increased need for data visualisation, to be addressed.

5.5 Operational management results

Amendments to the internal operations

Following an exploratory analysis in the autumn of 2014, DNB began reconfiguring its internal operations in 2015 with the aim of improving the contribution made to DNB's core tasks. Ultimately, the intention is that the operational activities should make an optimum contribution at reasonable cost to the effective, efficient and controlled implementation of DNB's core tasks. The new organisational structure came into operation on 1 October, with ICT having a more strategic position as a separate division. DNB also explored the scope for savings in its internal operations and what impact these measures would have on the service delivery. The Governing Board concluded that savings were possible over the longer term; this will be fleshed out further in 2016.

5.5.1 Staff

DNB focuses on selecting, recruiting and maintaining highly qualified staff in order to perform its tasks. It was once again recognised as a 'Top Employer' in 2015, an accreditation which indicates that DNB is one of the best employers in the Netherlands and has a forward-looking human resources environment which focuses on continual optimisation of the terms of employment and leads the way in staff development. Based on principles of equality, DNB makes no distinction by gender, ethnic or cultural background, beliefs, sexual orientation or other category in its Performance Management System.

Rationalisation of terms of employment

In line with developments in society, DNB has introduced rationalised terms of employment, as included in the collective labour agreement, which entered into effect at the start of 2015. For example, this entails a more austere pension scheme, leading to annual savings of EUR 4.9 million over the next five years, and the mortgage discount scheme for staff has been made less generous.

High Performance Organisation

DNB carried out its first High Performance Organisation (HPO) scan in 2015 as part of a staff survey. A High Performance Organisation is one which achieves significantly better results than comparable organisations by concentrating systematically on the things that are of genuine importance for the organisation. The HPO measurement makes clear where there is still room for improvement and sets clear targets, and therefore encourages DNB to be a learning organisation. The recommendations that follow from the results will form the input for action plans for improvement at all levels within DNB.

New intake and internal transfers

A total of 234 vacancies were filled in 2015, including 15 at management level. 35% of vacancies were routinely filled through internal transfers; with the remaining vacancies filled by external candidates from different sectors with a view to bringing in a fresh perspective. In 2015 DNB took on approximately 90 interns, thus providing a learning environment for new entrants to the labour market and potentially giving them a step up to a starter role.

Diversity

The male/female distribution of external candidates was 63.2% - 36.8% in 2015. By signing the Talent to the Top Charter, DNB has committed to a target of ensuring that at least 32% of management positions are held by women. At the end of 2015, this percentage stood at 29.7 (including secondments). DNB is pursuing an active policy to raise this percentage again. In addition to gender diversity, DNB actively embraces the view that everyone is equal regardless of sexual orientation, religion, age, physical impairments or distance from the labour market. It puts this view into practice by collaborating with the YAF foundation, WIFS and Gay Pride, as well as by facilitating several networks such as JongDNB and Female Capital. Diversity is about more than the characteristics of individuals and also relates to avoiding a monoculture. In this light, DNB looks explicitly at how effectively its diversity policy is reflected in its recruitment and working practices. To identify and eliminate potential impediments in this regard, regular reviews are carried out by independent external experts. In addition, DNB consciously aims to increase the interaction with the sector and chain partners through mutual internships and work experience places.

Internationalisation

DNB performs its core tasks in a growing international context. In 2015, 60 employees were given an opportunity to temporarily pursue their careers abroad through international placements and strategic secondments, including to the SSM, IMF and ECB. Good international links are not only important for strategic secondments and the filling of international (key) roles, but also help DNB to be and remain an influential player in the ESCB.

DNB Academy

Based on a Learning Vision, a collective curriculum was launched in 2015 comprising around 210 training programmes, linked to a lifelong learning requirement. The integration of training programmes into a single academy led to further automation and streamlining of procurement of training programmes and locations in 2015. Within the Academy, too, systematic consideration is given to how the external perspective can offer added value, for example by using external trainers or opening up the training programmes to chain partners such as the Ministry of Finance and the AFM. There is a great deal of international interest in the DNB Academy.

Strategic succession planning

The introduction of a balanced 'span of control' for managers, based on external benchmarks, enabled teams to be made smaller where necessary, resulting in an increase in output quality, as evidenced by an impact assessment. Management career paths were mapped out in 2015, creating a picture spanning several years and enabling the strategic functions within DNB to be steered. As in earlier years, a programme for new managers began in the year under review, in which 26 talented new managers participated. In addition, a range of masterclasses and external training courses was also offered for the current management, in connection with which a lifelong learning system was introduced.

Occupational health

The frequency of sickness-related leave remained virtually unchanged in 2015, while the sick leave percentage declined slightly. The sick leave frequency was 0.98 (2014: 0.96) and the sick leave percentage stood at 2.63% (2014: 2.79%) on average in 2015. The Risk Inventory and Evaluation (RI&E) was carried out in 2015 and an action plan was prepared. The outcome of the RI&E was positive. Overall, the number and size of the risks is low and is managed, also thanks to the action plan. Key occupational health priorities in 2015 were vitality, pressure of work and work stress, healthy lifestyle and sustainable employability.

5.5.2 Compliance and integrity

DNB attaches great value to integrity. Integrity in the conduct of the organisation and its employees contributes to public trust in DNB. Integrity in conduct and culture are core focus areas of DNB's compliance and integrity programme. This programme focuses on controlling integrity risks and promoting integrity in the conduct of DNB as an organisation and of its staff members. The ongoing development of integrity is a key priority within DNB, and external developments are also closely monitored. Attention was devoted in 2015 (by means of a 10-point plan) to the reinforcement of measures designed to prevent fraud. The Compliance and Integrity department (C&I) supports the organisation by raising awareness, through risk management and by giving advice. C&I also monitors compliance with the organisation's integrity policy and investigates reports of integrity incidents. DNB has a whistle-blower scheme and a complaints commission handling internal as well as external complaints.

Compliance with integrity regulations: reports and requests for advice

Compliance with DNB's code of conduct and integrity regulations is monitored. DNB employees must be able to perform their roles completely independently at all times. DNB's own employees as well as insourced staff must also comply with DNB's code of conduct and integrity regulations in order to prevent integrity risks such as conflicts of interest and bribery. Any situation that could jeopardise their independence or entail an apparent conflict of interests must be reported to the Compliance Officer.

Table 5.1 Reports and requests for advice relating to integrity regulations

	2015	2014
Independence (gifts and invitations, subsidiary activities, transfer)	205	182
Private portfolio investment transactions	908	1,028
Requests for advice	583	691

Of the 205 reports relating to the Independence Regulation, action was taken to prevent conflicts of interest in 55 cases. Specific arrangements were made, such as not accepting a gift or invitation or building in a cooling-off period after leaving the organisation.

The number of incidents relating to improper use of information reduced in 2015, thanks in part to increased focus on this subject. Wherever an incident potentially brings the integrity of an employee into question, a special investigation is initiated. Four such investigations were initiated in 2015. In three of these cases it was established that there had been no infringement of integrity; the fourth investigation revealed that there had been an infringement and disciplinary measures were taken. Three complaints were dealt with in 2015, two external and one internal. The internal complaint was declared inadmissible. One external complaint concerned the actions of a DNB staff member, the other related to the actions of DNB in relation to supervision. Following an investigation, both complaints were declared groundless. One whistle-blower report was received in 2015, which was later withdrawn.

Table 5.2 Integrity incidents, investigations and complaints

	2015		2014
Integrity incidents, including:	28	(total)	37
- Improper use of information	16		23
- Private portfolio investment transactions regulations	4		8
- Company property/fraud	4		2
- Other	4		4
Complaints			
-Internal	1		1
-External	2		
Whistle-blower reports	1		1

A news report about an employee whose employment contract was dissolved by the courts in 2014 at the request of DNB because of an undisclosed high-risk subsidiary activity, led to some publicity in 2015.

5.5.3 Environment
DNB achieved its ambitious environmental objectives in 2015. The principles underlying DNB's environmental objectives are compliance with laws and regulations, controlling environmental risks and continuing to improve the organisation's environmental performance.

Completion of Sarphatistraat offices/visitor centre
The renovation of DNB's second office building continued in 2015. The outdated building was completely stripped. The refurbished building will have an 'A' energy efficiency rating, a high sustainability rating (GPR) and a thermal storage system for heating and cooling the building. In its new form, the building will be completely climate-neutral and will house DNB's office functions and serve as a visitor centre.

Environmental Care
DNB operates an ISO 14001-certified environmental management system for the Facilities Management, Cash Operations and Security & Transport departments. Compliance with the principles of this system is monitored through audits, an environmental annual report and the management review. The annual external audit of this system was performed in November 2015. The outcome was positive and the accreditation was continued. This demonstrated that DNB has embedded environmental protection in its operations for these departments in a professional manner.

CO2 emission
The target for 2015 was a 100% reduction in CO_2 emissions compared with the baseline year 2007. This target was achieved. Thanks to the purchase of green electricity and the offsetting of the remaining CO_2 emissions through the purchase of CO_2 credits, DNB was climate-neutral in 2015.

The ICT division's policy is designed to ensure sustainable delivery of ICT services, from implementation to phase-out. DNB's laptops were replaced in 2015, and in January 2016 the decommissioned hardware was handed to the 'Close the Gap' foundation to be given a second life. To ensure the efficient use of the data centre's capacity, equipment is being shared to an increasing extent. Part of the equipment was replaced in 2015 with newer models 18% more energy-efficient. Lastly, a tool was rolled out at DNB to facilitate paperless meetings.

5.5.4 Sustainable procurement
DNB takes account of the social consequences in its procurement of goods, services and labour. This relates to the social, environmental and economic consequences for society in general and for DNB, its suppliers and their staff in particular. DNB's procurement policy includes an ongoing commitment to apply the social criteria of the Netherlands Enterprise Agency (RVO.nl) whenever possible, in addition to its environmental criteria. Suppliers that fail to meet one or more requirements are excluded from participating in the procedure.

In 2015, 38 European procurement projects and multiple private tenders (valued at more than EUR 50,000) were carried out. RVO.nl criteria were available for three product groups In all cases, DNB fully applied these criteria to the services and products to be procured where relevant. In five other cases for which RVO.nl criteria were not available, DNB included additional sustainability measures (ergonomic work equipment, reception services, armoured transport vehicles, waste and taxi transport). One tender – for reception services – included a stipulation relating to 'social return', in which suppliers were encouraged to employ persons with a distance to the labour market.

The RVO.nl sustainability criteria will be applied again in 2016 to all tender procedures exceeding EUR 50,000. As in the year under review, DNB will also look at whether additional sustainability aspects can be included which are not prescribed by RVO.nl, or whether social criteria can be applied.

5.5.5 Social commitment

Contributions and donations

DNB supports various activities that touch upon its core tasks, and also contributes to culture, health and society through charitable donations and other forms of support. The contribution budget stood at EUR 624,000 in 2015, the same as in 2014, while the donation budget was EUR 250,000, again unchanged from the previous year. All applications for support are assessed centrally in accordance with the policy approved by the Governing Board, and donations are monitored centrally throughout the year. Most contributions went to organisations in which DNB plays a supervisory or advisory role, or organisations jointly established by DNB, such as the Money Wise platform. One DNB employee was also released for several days per week to devote time to the Inspire2Live organisation.

Financial education

Traditionally, DNB provides financial education by informing the public on the core tasks of a central bank and the workings of the economy. DNB has a visitor centre where these subjects are explained to secondary and higher education students and other target groups. On 22 September 2015, the completely refurbished DNB visitor centre at Sarphatistraat 1 was opened by Queen Máxima. The centre features interactive exhibitions about the functioning of the economy and the scope of DNB's activities, and what this means for individual citizens. The new visitor centre is expected to lead to a marked increase in the number of visitors, from 18,000 to 30,000, both through guided tours and drop-in visits.

DNB also participates in the 'Money Wise' ('Wijzer in geldzaken') platform, which is an initiative of the Ministry of Finance. More than forty organisations from the financial sector, the academic world, education and consumer organisations work together on this platform to educate consumers and increase their financial awareness. DNB is one of the four sponsors of this initiative.

As in previous years, in 2016 DNB will take part in the national Money Week organised by this platform. DNB staff members give guest lessons at primary schools to educate school children on how to manage money. During Money Week 2015, 67 DNB employees gave more than 102 guest lessons at 55 schools. DNB also supports Child and Youth Finance International (CYFI), a global organisation that helps children in more than 100 countries to develop financial awareness and financial skills.

Technical cooperation

The technical assistance provided by DNB is aimed at strengthening the institutional and staffing capacity of sister institutions abroad, in particular those of the IMF Constituency representing the Netherlands and Belgium in the IMF, which currently comprises 15 countries. The technical assistance is mainly aimed at those countries which joined the Constituency following the political changes in Eastern Europe and the former Soviet Union in the early

1990s. Through this assistance, DNB contributes to the cohesion and long-term sustainability of the Constituency and helps to ensure that the Netherlands and Belgium are able to retain their shared seat in the IMF's day-to-day management. DNB also provides technical assistance to Aruba, Curaçao and St Maarten. In 2015, DNB deployed 5.2 FTEs for technical support, ranging from bilateral support in research to providing international seminars, including the first on the subject of financial inclusion in 2015, and organising peer-to-peer meetings for managers working in comparable fields.

Volunteering

Under the heading of Building Together (Samen Bouwen), DNB employees can take part in organised voluntary work projects. In 2015, about 250 DNB staff members took part in a total of 15 projects in two types of categories. First, there is the type where staff organise activities together with patients of a care institution, such as the annual summer party at the 's Heeren Loo care facility for people with intellectual disabilities. The Dutch Foundation for the Mental and Social Welfare of People with Disabilities also organised the 'Make the dream come true' ('Maak de droom waar') project in which 12,000 participants with intellectual disabilities took part. Staff also volunteer for the 'Cooking in a different kitchen' project ('Koken in een andere keuken'), in which meals are cooked for homeless people in Amsterdam. The second category of voluntary work concerns knowledge transfer, such as providing job application training, short company 'work visits' and internships and coaching programmes for schoolchildren. For example, primary and secondary school children aged up to 14 years can spend part of a day at DNB, seeing how the different departments operate and what activities are carried out. For the fifth year running, DNB also teamed up with JINC to help pupils at various pre-vocational secondary schools choose what course to take next. DNB also participated in the JINC projects 'How to plan your homework' ('Plannen doe je zo') for secondary school children and a job application training.

5.6 Risk management

5.6.1 Risk management framework

DNB has adopted a risk management framework and an integrated risk management policy. The framework is based on various international standards issued inter alia by the EBA, the BCBS and the ECB. The aim is to take a comprehensive view of risks and risk management activities and to avoid overlap and omissions. This is achieved by bringing together as much information as possible and facilitating integrated decision-making.

The risk management framework is based on the 'three lines of defence' model, geared to DNB's specific situation. In this model, management of risks lies with line management, supported by evaluation and assessment by specific (divisional) risk management and control functions, and by the internal audit department. These three lines of defence each operate under their own responsibility and together are responsible for risk management within DNB. Quarterly reports are sent to the Governing Board and Supervisory Board.

5.6.2 Risk categories

DNB distinguishes strategic, financial and operational risks. The Risk Management Committee (RMC) is responsible for managing balance sheet risks and the related financial buffers, and on this basis assesses the need to adjust the risk framework. Financial risk management is described in section 5.7.

The Operational Risk Board (ORB) oversees the management of all non-financial risks within DNB, including various internal management and control activities in relation to processes, people, systems or external events which could undermine the effective functioning of DNB. In 2015 non-financial risk management within DNB was assessed internally, based on the standards that DNB itself imposes on institutions. This led to the formulation of an action plan on further fleshing out the governance, strengthening the structured analysis of risk management and regular reporting and monitoring. Examples of this include the information security project and the systematic inventory of the various general and divisional measures intended to mitigate the fraud risk. Scenarios that could threaten the regular operations are used as a basis for assessing the risks to the various primary processes, as well as measures to mitigate the potential consequences. And in view of the growing importance of ICT, the ICT support infrastructure was strengthened further.

5.6.3 Main risks

The main strategic and operational risks identified have an impact on DNB's core tasks. For example, the unconventional monetary measures implemented within the Eurosystem have led to increased financial risks for DNB, and it is therefore important that DNB has adequate buffers to cover its exposures. Secondly, the current low interest rate environment is making life very difficult for the insurance industry. There is a risk that the existing supervisory framework will prove inadequate to sufficiently mitigate the risk of insurers not being able to meet their obligations. The introduction of Solvency II on 1 January 2016 will contribute to better risk identification. DNB also actively seeks to influence insurers to modify their business models and continue to strengthen their capital position. In collaboration with the Ministry of Finance, DNB is also analysing the scope for developing an adequate framework to enable timely and adequate measures to be taken if problems should occur.
DNB also sees transitional risks relating to the Single Supervisory Mechanism (SSM), resulting from the transfer of duties and responsibilities to the ECB. The introduction of the SSM has led to fundamental changes in banking supervision. Following a successful launch period, European cooperation will focus on further harmonising the working practices within supervision. DNB continues to play an important role in the supervision of significant Dutch institutions. It also wishes to be a strong player in the Single Supervisory Mechanism and has adapted its supervisory organisation and working practice to the SSM.

DNB is increasingly aware of the threat of cyberattacks on financial institutions and the payment system that DNB manages. To avoid disruptions to the payment system, DNB exercises supervision of the 'cyber resilience' of Dutch financial institutions. For its own systems, DNB applies a higher level of security by continually working on further improving its technical infrastructure (protection, zoning, prevention and monitoring, emergency measures) and strengthening its internal processes.

It is important to prevent confidential information falling into the wrong hands through misappropriation or careless actions by employees or insourced staff. DNB has taken steps to systematically raise the security level by taking measures in the area of ICT, drawing up guidelines, raising awareness, monitoring employees and information flows and taking physical security measures to ensure that information is handled with all due care.

Box 5.5 Information security

'Best in class' for information security

DNB works with highly confidential information. If that information should fall into the wrong hands, this could lead to fraudulent activity and even impact on the financial markets. In many cases, it would also harm DNB's image. DNB also needs to set an example for financial institutions. It therefore aims to ensure that its own information security system meets higher standards. DNB has the ambition of being best in class as regards information security. A Cyber Defence Centre (CDC) has been created to perform analyses of the many cyberattacks to which DNB is subject on a daily basis. The first analyses showed that DNB is a favoured target for cyber criminals throughout the world.

Development and training programmes have been launched for managers and staff on dealing with confidential information, and further measures have been taken related to improving the management of access rights, classification of information and optimisation of the information security guidelines. DNB also operates a responsible disclosure policy to encourage its own employees as well as people outside DNB to report any vulnerabilities they find in its systems. To date, DNB has received ten such reports, both from within and outside the Netherlands, and where warranted by the importance of the reports has given an appropriate reward to those who submitted them. The aim is to have achieved the information security ambition by mid-2017.

5.6.4 In control statement concerning financial reporting risks

Based on its evaluation DNB's Governing Board declares that, with regard to the financial reporting risks in 2015 the internal risk management and control systems provide reasonable assurance that the financial reporting is free of material misstatement. The internal risk management and control systems in respect of the financial reporting risks operated satisfactorily in 2015.

Efficiency and legitimacy

DNB aims to achieve efficiency and legitimacy in its expenditure. DNB has instructed its external auditor to assess the efficient and legitimate use of financial resources and to report on this in the findings (efficiency) to the auditor's report on the accountability of its duties as an independent public body (legitimacy). In this way DNB complies with its obligation under the Financial Supervision Funding Act (Wet bekostiging financieel toezicht - Wbft). In order to test DNB's efficiency, the functioning of its planning and control (P&C) cycle was assessed, establishing the connection between DNB's objectives and the costs incurred in achieving these. The actual costs in relation to the budget in the year under review provide a reliable picture of DNB's efficiency. DNB aims for a legitimacy rate of over 99% of its expenditure. In 2015 this percentage amounted to 99.8% (in 2014 and 2013 this was 99.8% and 99.4% respectively).

5.7 Financial position of DNB

DNB's risk profile deteriorated in 2015 as a result of the capital flight from Greece and the enlargement of the Eurosystem balance sheet due to purchases made under the Expanded Asset Purchase Programme (EAPP). The EAPP led to an increase in the credit risk, while interest income will remain low in the coming years and expose DNB to an interest rate risk that could materialise in the event of rising policy rates. The current low interest rates have led to a decline in interest income from DNB's monetary policy transactions and investment portfolios. The result is expected to fall further over the next few years.

DNB's exposures stem on the one hand from the joint monetary policy of the Eurosystem and on the other from its own investments. Its monetary exposures largely dictate DNB's risk profile. Most of the risks and proceeds of the joint monetary policy are shared by the central banks in the Eurosystem using a 'capital key' (5.69% for DNB). As a result, DNB has only limited control over its total balance sheet risk. DNB's total risk is determined using the expected shortfall method (99th percentile) in combination with scenario analyses. The total risk increased by EUR 3.4 billion in 2015 to EUR 12.7 billion. The total risk is determined by both direct exposures on DNB's balance sheet and indirect (Eurosystem) exposures where DNB carries part of the risk.

DNB will be increasingly exposed to credit and interest rate risk until at least March 2017 as a result of the asset purchase programmes under the EAPP. As principal repayments within the EAPP are reinvested, current estimates suggest that the balance sheet risks will be substantially higher in the future and will remain on the balance sheet for a prolonged period. The Governing Board therefore considers it prudent to strengthen the buffers and in 2015 decided to add EUR 500 million to the provision for credit and interest rate risk. The long-term projections of balance sheet risks and earnings will be used as a basis for an annual assessment of whether this provision needs to be adjusted.

Table 5.3 Total exposures

EUR billion, excluding gold and including Emergency Liquidity Assistance (ELA).

The exposures where DNB carries a risk have been reported.

	31-12-2015	31-12-2014	Difference
Total exposures	**108.9**	**75.6**	**33.3**
Monetary exposures	79.9	45.9	34.0
of which guaranteed	14.6	13.3	1.3
Own investments and other portfolios	29.0	29.7	-0.7
Total risk	**12.7**	**9.3**	**3.4**
EAPP risk, including interest rate risk	2.4	0.1	2.3
Risk under guarantee	8.1	7.0	1.1
Own investments and other asset risks	2.2	2.2	0.0
Risk buffer	**14.1**	**13.6**	**0.5**
Capital and reserves	7.9	7.9	0.0
Guarantee	5.7	5.7	0.0
Provision for credit and interest rate risks	0.5	0.0	0.5

5.7.1. Monetary exposures

The exposure of the Eurosystem – including DNB – to Greece has increased as a result of the crisis and makes the biggest contribution to DNB's risk profile. There are exposures to the Greek banks, government and central bank. Greek banks have made much more use of Emergency Liquidity Assistance (ELA) in the wake of the capital flight and the lack of high-value collateral. Moreover, the risk of a Greek default, restructuring or even an exit from the Eurosystem increased in the spring of 2015. The bridging finance agreement signed by Greece with the European Stability Mechanism (ESM) in the summer of 2015 enabled it to meet its obligations to the Eurosystem, but the risks relating to Greece remain high for the time being. These risks are covered by the state guarantee of exposures to countries on the periphery of the euro area dating from 2013, and amount to a maximum of EUR 5.7 billion.

The large-scale Eurosystem monetary purchase programmes (EAPP) mean that DNB's credit risk and interest rate risk have both increased. The EAPP was expanded in March 2015 to include the Public Sector Purchase Programme (PSPP) as an addition to the purchase programmes for Asset-Backed Securities (ABSPP) and Covered Bonds (CBPP3) which began in the fourth quarter of 2014. The PSPP involves the purchase of bonds issued by governments, government-related bodies and supranational institutions. The risks ensuing from purchases by a national central bank of bonds issued by its own government and government-related organisations (together accounting for 80% of the total PSPP) are borne entirely by that national central bank. Risks relating to the other purchases – bonds issued by supranational institutions (12%) and euro area government paper purchased by the ECB (8%) – are shared within the Eurosystem on the basis of the capital key. The envisaged monthly purchases under the EAPP at Eurosystem level amount to EUR 60 billion, of which around EUR 3.4 billion will be borne by DNB. In December 2015 the Governing Council of the ECB decided to extend the EAPP purchasing programme for at least six months until the end of March 2017, and to reinvest principal repayments within the EAPP.

The EAPP entails the large-scale purchase of long-term fixed income assets, which means that DNB interest income will be fixed at a low level for a prolonged period. The surplus liquidity arising from these purchases will be held by credit institutions at central banks in the Eurosystem in the form of deposits which will receive deposit interest. As a consequence, DNB is exposed to interest rate risk that will manifest itself if key interest rates are raised rapidly and significantly. Interest rate risk is determined on the basis of scenario analysis. The extension of the EAPP means this risk is likely to remain for several years to come.

Table 5.4 Monetary exposures

EUR billion, including Emergency Liquidity Assistance (ELA). The exposures where DNB carries a risk have been reported.

	OMO	SMP	ELA*	CBPPs	ABSPP	PSPP_NL	PSPP_Supra	**Total**
The Netherlands	0.7	0.0	0.0	1.0	0.5	23.3	0.0	**25.5**
Italy	9.0	3.4	0.0	1.0	0.1	0.0	0.0	**13.6**
Spain	7.7	1.5	0.0	2.4	0.1	0.0	0.0	**11.6**
France	5.1	0.0	0.0	2.4	0.1	0.0	0.0	**7.5**
Germany	3.3	0.0	0.0	1.8	0.1	0.0	0.0	**5.2**
Greece	2.2	0.7	4.0	0.0	0.0	0.0	0.0	**6.9**
Portugal	1.5	0.6	0.0	0.2	0.0	0.0	0.0	**2.4**
Other	2.3	0.5	0.2	0.7	0.0	0.0	3.4	**7.2**
Total	**31.8**	**6.7**	**4.2**	**9.5**	**1.0**	**23.3**	**3.4**	**79.9**
Difference relative to Dec 2014	-2.2	-1.3	3.8	6.1	0.9	23.3	3.4	34.0

* Under normal circumstances, ELA has no risk-sharing in the Eurosystem and is an indirect exposure for DNB.

5.7.2. Own-account investments

Net financial assets totalled EUR 19,265 million as at end-2015. This concerns balance sheet items related to the central bank's national tasks, such as management of own-account investments. DNB's own-account investments consist primarily of short-dated bonds issued by governments and semi-government bodies in Germany and the United States. The risk profile of these investments is kept low, and remained virtually unchanged throughout 2015. Minimum conditions are set for the liquidity, solvency and signalling function of the investments. Forward exchange contracts are used to hedge the currency risk on bond investments in USD and AUD and the IMF Special Drawing Rights (SDR) receivable.

As well as the fixed-income portfolios, DNB also has investments in equities that are managed by three external asset managers. The equity portfolio amounts to EUR 1.3 billion and tracks the MSCI World Benchmark mainly through a passive investment policy. DNB's equity investments are placed with external managers that apply international standards and principles, such as the United Nations Principles for Responsible Investment (UN PRI) and the UN Global Compact, which involve an assessment of criteria relating to human rights, the environment, working conditions and anti-corruption measures. This filter means that 4% of the investment universe (MSCI World) is excluded, which limits the chance of DNB indirectly investing in unethically operating companies. DNB failed to achieve its objective to monitor the actual implementation by external equity managers in 2015. DNB is developing a framework to monitor the quality and governance of the activities of external equity managers, as well as the extent to which they address and report CSR issues. Around a further 7% (EUR 1.8 billion) of the fixed-income portfolio consists of bonds issued by development banks (such as the World Bank, the European Investment Bank and the Asian Development Bank).

Table 5.5 Composition of own-account investment portfolio

EUR billions

	31-12-2015	31-12-2014	Difference relative to Dec 2014
Euro investment portfolio	**17.8**	**17.8**	**0.0**
Dutch government	3.6	3.3	0.3
Other EU government	11.0	11.7	-0.7
Semi-government/supra national	2.6	2.3	0.3
Covered bonds	0.3	0.3	0.0
Reverse repo/deposit	0.3	0.3	0.0
USD investment portfolio	**7.2**	**7.4**	**-0.2**
Government	5.9	6.1	-0.2
Semi-government/supra national	1.1	0.8	0.3
Reverse repo/deposit	0.1	0.5	-0.4
AUD investment portfolio	**1.0**	**1.0**	**0.0**
Government	0.6	0.6	0.0
Semi-government/supra national	0.4	0.3	0.1
Reverse repo/deposit	0.0	0.0	0.0
	26.0	**26.2**	**-0.2**
IMF claims	1.9	2.4	-0.5
Shares	1.3	1.5	-0.2
Market value of currency hedging	-0.1	-0.4	0.3
Total	**29.1**	**29.7**	**-0.6**

5.7.3. Result

The result for the full year 2015 stood at EUR 183 million, a reduction compared with the previous year (see Table 5.6). The main reason for the lower profits was the addition of EUR 500 million to the provision for credit and interest rate risks (see Financial Statements). Lower key interest rates and a decline in the volume of the high-income Securities Market Programme (SMP) and Covered Bond Programmes (CBPP1/2) portfolios due to redemptions led to a reduction in interest income compared with previous years. Bonds within the EAPP are being purchased at very low yields and therefore make only a limited contribution to profitability. The widening of the interest rate corridor (the difference between the marginal lending rate and the deposit rate) in December 2015 had virtually no impact on the result for 2015, and its effect in 2016 is also likely to be limited.

DNB's own-account investments made a significant contribution to profit, mainly due to the realisation of gains in the equity portfolio. Income from the fixed-income portfolios was held back by the low interest rates and the defensive risk profile (including the short duration). Total revenues from the non-monetary portfolios amounted to EUR 310 million, down EUR 192 million on 2014.

Table 5.6 Overview of results

Breakdown of DNB's results

EUR millions

Monetary operations	31-12-2015	31-12-2014	Difference relative to Dec 2014
OMO	28	60	-32
CBPP1 and 2	48	69	-21
SMP including CBPP3	418	480	-62
Other	58	29	29
Total monetary operations	**552**	**638**	**-86**
Foreign reserves and euro investments			
Euro investments	103	176	-73
USD investments	-11	23	-34
JPY, AUD and SDR investments	-14	3	-17
Investments in shares	171	242	-71
Results of ECB and BIS participating interests	60	58	2
Total foreign reserves and euro investment portfolio	**310**	**502**	**-192**
Sundry (including expenses)	-178	-189	11
Addition to provision	-500	0	-500
Total	**183**	**951**	**-768**

5.8 Costs

The costs allocated to DNB's core tasks in 2015 amounted to EUR 332.0 million (see Table 5.7), a budget undershoot of EUR 17.4 million. There were several reasons for this underspend. Lower than expected staff costs across DNB (marginal contractual wage increases and pension costs that were EUR 3.1 million lower than expected) led to a reduction of EUR 6.4 million. In addition, DNB received a fee to cover the legal costs in respect of Icesave (EUR 2.6 million). Also, as in previous years, DNB made a deliberate attempt to control the costs of support. The remaining (material) differences for each core task are set out in Table 5.7.

Table 5.7 Core task costs

EUR million

	Actual 2015	Budget 2015	Difference	Actual 2014	Actual 2013
Core task					
Financial stability*	12.6	15.2	-2.6	17.0	16.3
Monetary stability and economic advice	54.4	60.2	-5.8	52.1	54.9
Payment systems	85.7	84.5	1.2	95.0	110.2
Supervision (excluding FEC)	144.0	152.4	-8.4	182.3	139.9
FEC	1.2	1.2	0.0	1.0	0.9
Statistics	30.5	30.8	-0.3	29.0	25.0
Resolution	3.6	5.1	-1.5		
Total	**332.0**	**349.4**	**-17.4**	**376.4**	**347.2**

* Including costs for the execution of the DGS.

Spending on the core task Financial Stability was EUR 2.6 million under budget in 2015. This was due to the fee received to cover the legal costs in respect of Icesave.

The costs for the Monetary Stability and economic advice core task are EUR 5.8 million lower than budgeted, partly because of lower amortisation costs in the reserve management support system and partly because a number of divisions were not yet fully staffed in 2015.

The overspend on the core task Payment systems was EUR 1.2 million. This was due to production problems in 2014 which meant that the production of banknotes was deferred from the end of 2014 to the financial year 2015.

Spending on the core task Supervision was EUR 8.4 million under budget in 2015, partly as a result of cutbacks in support costs and outsourcing.

The underspend on the core task Resolution was EUR 1.5 million. This was due to this being a new task which was still in the start-up phase in 2015.

Report of the Supervisory Board

6 Report of the Supervisory Board

6.1 Introduction

As the year 2015 progressed, the Supervisory Board increasingly zoomed in on the risks on the balance sheet of De Nederlandsche Bank (DNB). This is set out in further detail in Section 6.3. As in previous years, the Supervisory Board devoted attention to its tasks as internal supervisor, which in the past focused on DNB's management and operational activities but was substantially widened after 2011. Its tasks and duties most recently expanded to include supervision of the Governing Board's policy in execution of DNB's national resolution task. The expansion of the Supervisory Board's tasks and duties involves the close involvement of the Board, enriching the relationship with the Governing Board.

6.2 Composition, appointments

The composition of the Governing Board remained unchanged in 2015. The composition of the Supervisory Board changed as follows in 2015.

Wim Kuijken resigned as government-appointed member as of 1 June 2015; the shareholder appointed him Chair of the Supervisory Board on the same date. He succeeded Alexander Rinnooy Kan, who resigned as Chair and member of the Supervisory Board on the same date. The Minister of Finance appointed Annemieke Nijhof as government-appointed member of the Supervisory Board on 1 June 2015. On completing her second term, Annemiek Fentener van Vlissingen resigned from the Supervisory Board on 1 June 2015. She had been a member since 2007 and Vice-Chair since 2012. The shareholder appointed Jaap van Manen for a second term as of 1 January 2015; the Supervisory Board appointed him Vice-Chair on 1 June. The shareholder appointed Margot Scheltema as member as of 1 September 2015. The Supervisory Board owes the resigned members a debt of gratitude for their valuable contributions year after year, with which they undeniably added to the functioning of DNB and its pivotal role in the national and international social system. The Supervisory Board also expresses its gratitude in particular to Alexander Rinnooy Kan for the involvement, commitment and expertise with which he chaired the Board.

As there were no appointments or reappointments to the Governing Board in the year under review, the Governing Board diversity remained unchanged. The male/female mix on the Supervisory Board changed as a result of the appointments of Annemieke Nijhof and Margot Scheltema. In the event of appointment or reappointment, the Board focuses on the adopted board profile, including the aim of diversity, which, incidentally, extends beyond the male/female mix.

In conformity with Section 13(1) of the Bank Act 1998, the Supervisory Board consists of at least seven and at most ten members. At the adoption of the 2015 Financial Statements, the Supervisory Board consisted of seven members: Wim Kuijken (Chair), Jaap van Manen (Vice-Chair), Bert van Delden (Secretary), Annemieke Nijhof (government-appointed member), Feike Sijbesma, Kees Goudswaard and Margot Scheltema. Within the framework of its succession planning in the longer term, the Supervisory Board is considering the legal profile position opening up on 1 November 2016, on the completion of Bert van Delden's third term. Aiming to comprise a number of members deemed suitable for the current situation, the Supervisory Board seeks the accession of an eighth member to the Board, preferably a candidate with a background in the financial sector.

The participation of Supervisory Board members in the Bank Council changed in 2015. On 1 June 2015, Annemieke Nijhof joined the Bank Council in her capacity as government-appointed member of the Supervisory Board, succeeding Wim Kuijken. Bert van Delden, who has been designated by the Board as member of the Bank Council, continued his membership in 2015. The composition of the Supervisory Board, its committees and the Governing Board is provided from page 5 of this Annual Report. The profiles of the Supervisory and Governing Board and the other positions that their members hold can be found on DNB's website.

6.3 Activities

During the year under review, the Supervisory Board held seven plenary meetings in the presence of the Governing Board and one meeting without the Governing Board being present. The average attendance rate of its members was over 95%. None of the members were regularly absent. The Chair of the Supervisory Board and the President were in frequent contact about issues concerning the Supervisory Board's work. The activities of the Board's committees are described in Sections 6.4 to 6.6 below. As part of the Supervisory Board's supervision of the general course of business at DNB, the Board discussed the financial results for 2015 in the Audit Committee and in its plenary meetings. These discussions were based on the Accounting and Financial Markets reports, the management letters and audit reports from the external auditor and the internal audit department (IAD) and the IAD quarterly reports.

One recurring issue was the increase in balance sheet items related to the monetary operations and associated risks. The Eurosystem eased its monetary policy further in 2015, also on the back of the ECB's decision in January 2015 to purchase government bonds on a large scale under the expanded asset purchase programme (EAPP). In December 2015, the ECB decided to extend the programme and reinvest the proceeds from the expiring bonds. These decisions result in an increase in DNB's credit risk and interest rate risk of such a magnitude – and a longer duration – that both the Supervisory Board and the Governing Board consider it prudent to strengthen the buffers. The Supervisory Board therefore urged the Governing Board to consider discussing the disproportion between the current capital build-up and the increase in financial risks with the shareholder. The Supervisory Board concurs with the Governing Board that the required buffer reinforcement should be realised by forming a provision for credit and interest rate risk. An amount of EUR 500 million was added to the provision for credit and interest rate risk for the 2015 financial year.

The net profit for 2015 came to EUR 183 million (2014: EUR 951 million), and the distribution to the Dutch State amounted to EUR 174 million. DNB again refrained from distributing an interim dividend for the 2015 financial year. No gold sales took place in 2015. From time to time, the Supervisory Board discusses the Governing Board's considerations concerning the gold stock. It took note of the evaluation of the changes to DNB's location policy in 2014.

The Supervisory Board held detailed discussions with the Governing Board about the 2015 financial statements. These meetings were also attended by the external auditor. The opinion of the external auditor and the IAD's analyses were included in these discussions. Pursuant to Section 13(6) of the Bank Act 1998, the Supervisory Board subsequently adopted DNB's financial statements and presented them for approval to the general meeting of shareholders. On 23 March 2016, the latter approved the financial statements and discharged the Governing Board of responsibility in respect of its management and the Supervisory Board in respect of its supervision.

The Supervisory Board discussed the budget for 2016, including the Independent Public Body Budget, and approved it on 13 November 2015. The Supervisory Board established that the internal operational and control instruments, such as the planning and control cycle and the risk management and control system, operated effectively and welcomed the Governing Board's attention to ongoing further strengthening, including in relation to the process to identify DNB's main risks.

Having been discussed by the Supervisory Board and the Governing Board, the Independent Public Body Budget was reviewed in the annual budget meeting with the Ministry of Finance and the Ministry of Social Affairs and Employment. The Supervisory Board welcomes the fact that the Governing Board practises transparency in the budgeting process. The budget agreements on supervisory fees include a multi-annual financial framework for 2013-2016. The introduction of the SSM has fundamentally changed the organisation of supervision, on account of which a one-off additional amount of EUR 5 million was allocated to DNB for 2015. This budget will be discontinued in the 2016 financial framework. A detailed analysis of the new tasks ensuing from the transition to European banking supervision and the additional work related to national supervisory tasks shows that considerable expansion and intensification will be required in 2016, bearing in mind the discontinuation of the additional budget for 2015. The Board is pleased to see that DNB is able to accommodate the reinforcements required for integrity supervision at banks, the necessary intensification of trust office supervision and the required additional staff capacity ensuing from legislative changes within the existing framework by means of targets and prioritisation. However, DNB is unable to meet the staff capacity requirement related to banking supervision under the SSM within the current budget. The Board approved DNB's request to the Minister of Finance for an additional amount of EUR 3.6 million for 2016 relative to the supervisory framework to perform these supervisory tasks. This effectively involves the rolling over of a portion of the unused additional budget allocated for 2015. The Supervisory Board concurs with the Governing Board that future discussions on the multi-annual financial framework (2017-2020) should include an inventory of the structural staff capacity requirement, also in relation to the SSM.

In the context of the phased launch of the European banking union, the Board devoted attention to the impact of the start of both the SSM and the SRM. For instance, the Supervisory Board and the Governing Board took stock after the SSM's first year, which was also an item on the agenda at the meetings of the Supervision Committee. With a view to its permanent learning programme, the Board looked at developments with regard to the SRM and DNB's designation as the national resolution authority.

The allocation of responsibilities among the members of the Governing Board as at 1 November 2014 remained unchanged in 2015. A key element in this allocation is the management of Internal Operations by the Secretary-Director, a newly created position with effect from 1 November 2014, under the direct responsibility of DNB's President. The Supervisory Board is pleased that the Governing Board appointed Nicole Stolk Secretary-Director as of 1 February 2016 as the successor of Femke de Vries. Nicole Stolk will continue the rearrangement of DNB's Internal Operations that was formalised on 1 October 2015, carefully considering efficiency, cost awareness, management processes and their ownership. Effective from 1 October 2015, the Human Resources department reports directly to the Secretary-Director, also in view of the department's strategic reorientation. It is essential for DNB to have a strategic staff policy in place, as the Board is of the opinion that DNB must be able to speak with authority in the sectors to which its core tasks apply. The Board looks with a keen interest at the challenges facing DNB in its corresponding aim to attract excellent people throughout its organisation, offering the best match in terms of expertise, experience and seniority.

At each of its meetings, the Supervisory Board devoted close attention to the periodic update on core task-related issues, discussing a wide range of subjects. In 2015, the Board also approved several amended regulations governing compliance-related Supervisory Board and Governing Board matters. In the context of its permanent learning programme in 2015, the Board focused on the impact of technological innovation on the financial sector, imminent European regulations on supervision and DNB's balance sheet risk exposure. In addition, various in-depth presentations were given at the meetings of the Supervisory Board and its committees. The two Supervisory Board members appointed in 2015 participated in an orientation programme. In conformity with Section 24 of the Works Councils Act (Wet op de ondernemingsraden), members of the Supervisory Board attended consultation meetings between the Executive and the Employees Council. The Board's next meeting with the Employees Council is scheduled for 2016. In addition, members of the Supervisory Board paid working visits to various DNB divisions without the Governing Board being present. The Chair of the Supervisory Board and the Chair of the Audit Committee meet with the Head of the Compliance and Integrity Department at regular intervals, and the Chair of the Audit Committee also meets at set times with the Head of the IAD and the external auditor.

The Supervisory Board met with the supervisory board of the Netherlands Authority for the Financial Markets (AFM) in early 2016. The Supervisory Board had its performance in 2015 assessed by an external party and discussed the results at a plenary meeting without the Governing Board being present. At this meeting, the Supervisory Board also discussed the Governing Board's performance. The main points of the assessment were the Supervisory Board's attention for DNB's strategic agenda and for talent management, and the Supervisory Board and Governing Board's regular discussion of relevant files on the basis of lessons learned.

6.4 Audit Committee

In the year under review, the Audit Committee consisted of Kees Goudswaard (Chair), Wim Kuijken and, effective from 1 September 2015, Margot Scheltema. There are no vacancies.

The Audit Committee met four times in 2015. The average attendance rate of its members was almost 90%, with none of them being regularly absent. The meetings were held in the presence of the Secretary-Director, the external auditor, the Head of IAD, and a number of internal officers from the relevant areas. The Audit Committee discussed the financial statements at length, including the relevant IAD reports and the external auditor's findings, dwelling on the severely deteriorated ratio of DNB's capital to its balance sheet risks and possible ways to improve this ratio. The committee advised the Supervisory Board to adopt the financial statements and to approve the Independent Public Body Report for 2015. When discussing the 2016 budget, the Audit Committee concluded that the budget is transparent and sound. It therefore advised the Board to approve the 2016 DNB budget and the 2016 Independent Public Body Budget. In 2015, the Audit Committee again paid considerable attention to the reports and management letters of the external auditor and the IAD, the Accounting and Financial Markets reports, updates on statistics and payments, and the quarterly reports issued by the Compliance and Integrity Department. The committee established that the Governing Board had given sufficient attention to the follow-up of the findings and recommendations set out in the management letters. Other subjects that the Audit Committee discussed included reinforcement of the information security policy in part in response to cyberthreats, the impact of the SSM on DNB's Internal Operations and Statistics function, fraud control policies and adjustments to DNB's investment process. Based on the regular discussion of recent developments in the audit profession that have a bearing on the committee, the Audit Committee decided to step up its contacts with relevant control functions within DNB and with the external auditor.

6.5 Remuneration and Appointments Committee

Until 1 June 2015, the Remuneration and Appointments Committee consisted of Annemiek Fentener van Vlissingen (Chair), Alexander Rinnooy Kan, Feike Sijbesma and Wim Kuijken. By decision of the Supervisory Board, the Remuneration and Appointments Committee consists of two members, Feike Sijbesma (Chair) and Wim Kuijken, with effect from 1 June 2015.

There are no vacancies. The Remuneration and Appointments Committee met nine times in 2015. Each meeting was attended by all members and the President.

The committee paid a great deal of attention to the composition of the Supervisory Board, including the succession of the Chair, and aspects concerning remuneration of the Governing Board, and ensured it was kept informed about the vacant position of Secretary-Director. The committee spoke with the President about his performance and that of the other Governing Board members, following the Supervisory Board's annual evaluation. In response to amendments to DNB's integrity regulations as discussed by the Remuneration and Appointments Committee and the Supervisory Board, the committee was given a more prominent role in the assessment of the compatibility of secondary offices.

6.6 Supervision Committee

In the year under review, the Supervision Committee consisted of Jaap van Manen (Chair) and Bert van Delden, with Alexander Rinnooy Kan resigning from the committee and Annemieke Nijhof joining the committee as a member on 1 June 2015. Margot Scheltema joined the Supervision Committee on 1 November 2015. There are no vacancies.

The Supervision Committee met four times in 2015. Each meeting was attended by all members, DNB's two Executive Directors of Supervision and a number of internal officers from the relevant areas. The committee's agenda is based in part on an annual agenda and in part on current events. In 2015, the meetings again focused on a combination of practical cases, current policy issues and a gaining more insight into various supervisory topics including reinforcement of DNB's screening process (with the Supervisory Board providing a sounding board for the Governing Board), the future of the pension system and the insurance sector, anti-takeover devices for financial institutions, DNB's strategy for the supervision of trust offices, and DNB's role, tasks and powers in combating financial crime.

Naturally, the Supervision Committee also made a thorough inquiry into initial experiences with the SSM, not only in relation to the ensuing changes to DNB's supervisory practice, but – in the context of its advice to the Supervisory Board on the organisational set-up of supervision – also in terms of the impact on DNB's organisation and staff. In this context, the committee also discussed the influx of external candidates in DNB's supervision staff.

As part of the Supervisory Board's monitoring of DNB's policy in respect of its prudential supervision, the Supervision Committee at all of its meetings exchanged views with the Governing Board about institution-specific supervision cases to which the latter devoted particular attention in that period. These discussions pertained to, among other things, legal proceedings involving a number of supervised institutions. The Supervision Committee, like the Audit Committee, advised the Supervisory Board to approve the Independent Public Body Budget for 2016 and the Independent Public Body Report for 2015. In preparation for the 2016

Independent Public Body Budget, the Supervision Committee also reviewed DNB's Supervision Outlook, a new publication to replace the separately published annual supervisory themes and other DNB publications. In the context of the Independent Public Body Report, the Supervision Committee discussed the State of Supervision, another new publication. The Supervision Committee met with the Executive Directors of Supervision to discuss the evaluation of the Prudential Supervision Council's decision-making and the action points emerging from DNB's annual stakeholder analysis. Discussions of topics such as these are useful in that they shed new light, which makes for focused decision-making.

6.7 Declaration of Independence

The Regulation on Incompatible Offices and the Regulation on Conflicts of Interest apply to Supervisory Board members without restriction. Supervisory Board members are not and have never been employed by DNB, nor do they have any relationship with DNB from which they could obtain personal gain. Supervisory Board members receive a fixed annual fee that is not related to DNB's results in any given year. All Supervisory Board members are independent within the meaning of the Dutch Corporate Governance Code.

6.8 Concluding words

The 2015 financial year placed high demands on the organisation, with initial experiences with the SSM and the SRM having a profound impact on many staff members in ways more than one. The rearrangement of Internal Operations with effect from 1 October 2015 and its further implementation is equally far-reaching. The Supervisory Board would like to take this opportunity to express its appreciation for the unwavering commitment and dedication of DNB's staff and its Governing Board, and looks forward to its continued cooperation with the Governing Board in 2016.

Amsterdam, 23 March 2016

The Supervisory Board of
De Nederlandsche Bank N.V.

Wim Kuijken, Chair
Bert van Delden, Secretary

Financial statements

Balance sheet as at 31 December 2015
(before appropriation of profit)

Millions

		31 December 2015	31 December 2014
	Assets	EUR	EUR
1	Gold and gold receivables	19,164	19,450
2	Claims on non-euro area residents denominated in foreign currency	15,993	16,119
2.1	Receivables from the International Monetary Fund (IMF)	8,042	8,140
2.2	Balances with banks and security investments, external loans and other external assets	7,951	7,979
3	Claims on euro area residents denominated in foreign currency	231	401
4	Claims on non-euro area residents denominated in euro	359	248
5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	13,000	10,782
5.1	Main refinancing operations	315	160
5.2	Longer-term refinancing operations	12,685	10,622
5.3	Fine-tuning reverse operations	0	0
5.4	Structural reverse operations	0	0
5.5	Marginal lending facility	0	0
5.6	Credits related to margin calls	0	0
6	Other claims on euro area credit institutions denominated in euro	240	251
7	Securities of euro area residents denominated in euro	56,527	28,252
7.1	Securities held for monetary policy purposes	39,517	11,093
7.2	Other securities	17,010	17,159
8	Intra-Eurosystem claims	102,139	62,157
8.1	Participating interest in ECB	482	482
8.2	Claims equivalent to the transfer of foreign reserves to the ECB	2,320	2,320
8.3	Claims related to the issuance of ECB debt instruments	0	0
8.4	Net claims related to the allocation of euro banknotes within the Eurosystem	44,729	39,907
8.5	Other intra-Eurosystem claims (net)	54,608	19,448
9	Other assets	2,783	2,577
9.1	Euro area coins	10	4
9.2	Tangible and intangible fixed assets	262	252
9.3	Other financial assets	1,584	1,798
9.4	Off-balance sheet instruments revaluation differences	0	0
9.5	Accruals and prepaid expenses	887	514
9.6	Sundry	40	9
	Total assets	**210,436**	**140,237**

Amsterdam, 23 March 2016
The Governing Board of De Nederlandsche Bank N.V.

Klaas Knot, *President*
Jan Sijbrand
Frank Elderson
Job Swank

		31 December 2015	31 December 2014
	Liabilities	EUR	EUR
1	Banknotes in circulation	56,690	53,505
2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	114,399	49,943
2.1	Current accounts (covering the minimum reserve system)	98,260	44,418
2.2	Deposit facility	16,139	5,525
2.3	Fixed-term deposits	0	0
2.4	Fine-tuning reverse operations	0	0
2.5	Deposits related to margin calls	0	0
3	Liabilities to other euro area residents denominated in euro	1,360	1,862
3.1	General government	85	192
3.2	Other liabilities	1,275	1,670
4	Liabilities to non-euro area residents denominated in euro	4,062	587
5	Liabilities to euro area residents denominated in foreign currency	0	0
6	Liabilities to non-euro area residents denominated in foreign currency	0	0
7	Counterpart of special drawing rights allocated by the IMF	6,156	5,767
8	Intra-Eurosystem liabilities	0	0
8.1	Liabilities related to the issuance of ECB debt certificates	0	0
8.2	Other intra-Eurosystem liabilities (net)	0	0
9	Other liabilities	348	595
9.1	Off-balance sheet instruments revaluation differences	208	488
9.2	Accruals and income collected in advance	69	68
9.3	Sundry	71	39
10	Provisions	516	22
11	Revaluation accounts	18,804	19,135
12	Capital and reserves	7,918	7,870
12.1	Issued capital	500	500
12.2	General reserve	7,381	7,335
12.3	Statutory reserve	37	35
13	Profit for the year	183	951
	Total liabilities	**210,436**	**140,237**

Amsterdam, 23 March 2016
Adopted by the Supervisory Board of De Nederlandsche Bank N.V.

Wim Kuijken, *Chair*
Jaap van Manen, *Vice-Chair*
Bert van Delden, *Secretary*
Kees Goudswaard
Annemieke Nijhof
Margot Scheltema
Feike Sijbesma

Profit and loss account for the year ending 31 December 2015

Millions

		2015	2014
		EUR	EUR
1	Interest income	889	837
2	Interest expense	(82)	(104)
	Net interest income	807	733
3	Realised gains/(losses) from financial operations	181	369
4	Write-downs on financial assets and positions	(25)	(20)
5	Reclassified to [and from] provision for credit and interest rate risks	(500)	0
	Net result from financial operations and write-downs	(344)	349
6	Fees and commissions income	8	8
7	Fees and commissions expense	(7)	(7)
	Net fees and commissions income/(expense)	1	1
8	Income from equity shares and participating interests	63	71
9	Net result of monetary income pooling	(166)	(12)
10	Other income	157	187
	Total net income	518	1.329
11	Staff costs	(204)	(211)
12	Other administrative costs	(86)	(120)
13	Depreciation and amortisation of tangible and intangible fixed assets	(35)	(32)
14	Banknote production costs	(16)	(23)
15	Other costs	0	0
16	Capitalised software costs	6	8
	Profit for the year	**183**	**951**

Amsterdam, 23 March 2016
The Governing Board of De Nederlandsche Bank N.V.

Klaas Knot, *President*
Jan Sijbrand
Frank Elderson
Job Swank

Amsterdam, 23 March 2016
Adopted by the Supervisory Board of De Nederlandsche Bank N.V.

Wim Kuijken, *Chair*
Jaap van Manen, *Vice-Chair*
Bert van Delden, *Secretary*
Kees Goudswaard
Annemieke Nijhof
Margot Scheltema
Feike Sijbesma

Notes to the balance sheet as at 31 December 2015 and the profit and loss account for the year ending 31 December 2015

1. Accounting policies

The financial statements are drawn up in accordance with the models and accounting policies applying to the European Central Bank (ECB) and the European System of Central Banks (ESCB) (hereafter: ESCB accounting policies) and the harmonised disclosures to the balance sheet and the profit and loss account. Otherwise the financial statements follow the provisions of Part 9 of Book 2 of the Dutch Civil Code, in line with the provisions of Section 17 of the Bank Act 1998.

The ESCB accounting policies are broadly in line with the Dutch generally accepted accounting principles (Dutch GAAP). In deviation from Part 9 of Book 2 of the Dutch Civil Code:

a. unrealised gains from assets and liabilities measured at revalued amounts are not recognised in the profit and loss account but included in a revaluation account in the balance sheet;
b. no cash flow statement is included; and
c. a provision for credit and interest rate risks[1] is included under liability item 'Provisions' with effect from 2015.

Comparison with preceding year

The accounting policies have not changed compared with the preceding year.

General

Gold and gold receivables and on- and off-balance sheet rights and obligations denominated in foreign currency are valued at market prices prevailing at the end of the financial year. The valuation of securities is based on data that result in realistic and representative market values. Accordingly, the price data of the next-to-last trading day of the year are used for the valuation of securities. The remaining assets and liabilities are carried at cost or face value, less any accumulated impairment losses. Transactions in financial assets and liabilities are recognised in the financial statements as at the settlement date, with the exception of foreign exchange transactions, interest rate swaps and the related accruals, which are reported as at the trade date (in accordance with the economic approach). Revaluations arising from price differences in respect of securities are determined on a portfolio-by-portfolio and security-by-security basis. Revaluations arising from exchange rate differences are determined on a portfolio-by-portfolio and currency-by-currency basis. Unrealised revaluation gains are added to the 'Revaluation accounts'. Unrealised revaluation losses are recognised in 'Revaluation accounts' to the extent that the 'Revaluation accounts' balance is positive. Any shortfall is recognised in the profit and loss account at the end of the financial year. Price revaluation losses on a security are not netted against price revaluation gains on another security or exchange rate revaluation gains. Exchange rate revaluation losses on any one currency

1 This provision has been included pursuant to Article 6a of the accounting policies that apply to the ECB and the ESCB (Guideline ECB/2010/20 on the legal framework for accounting and financial reporting in the European System of Central Banks).

are not netted against exchange rate revaluation gains on any other currency or against price revaluation gains. For gold and gold receivables, no distinction is made between price revaluation and exchange rate revaluation.

Conversion of foreign currencies

Assets and liabilities denominated in foreign currency are converted into euro at the ECB market exchange rate prevailing at the end of the financial year. Income and expenses are converted at the market exchange rates prevailing at the transaction dates. The exchange rate revaluation of assets and liabilities denominated in foreign currency, including off-balance sheet rights and obligations, is performed on a per-portfolio and per-currency basis.

Gold and gold receivables

Gold and gold receivables are valued at market price. This market price in euro is stated by the ECB and derived from the gold valuation in USD prevailing at the end of the reporting period.

Securities held for monetary policy purposes

Securities held for monetary policy purposes are accounted for at amortised cost, less any accumulated impairment losses, regardless of any intention to hold the securities to maturity. These securities are reported in 'Securities of euro area residents denominated in euro' ('Securities held for monetary policy purposes').

Securities held for other than monetary policy purposes

Marketable securities held for other than monetary policy purposes (including equity index investments) are valued at the market value prevailing at the end of the reporting period. Price revaluations are carried out on a security-by-security basis. Readily marketable securities included in 'Securities of euro area residents denominated in euro' ('Other securities') are valued at market price. Non-liquid securities are valued at the lower of cost or market value. Composite securities are not split for valuation purposes. Securities are reported in the following balance sheet items: 'Claims on non-euro area residents denominated in foreign currency', 'Claims on euro area residents denominated in foreign currency', 'Claims on non-euro area residents denominated in euro', 'Other claims on euro area credit institutions denominated in euro', 'Securities of euro area residents denominated in euro' ('Other securities') and 'Other assets' ('Other financial assets').

Private loans

Private loans are valued at nominal value and presented under 'Other assets' ('Other financial assets').

Repurchase and reverse repurchase transactions

Repurchase transactions (repos) consist of a spot sale of securities hedged by a forward purchase of the same securities. The receipts from the spot sale are presented in the balance sheet as a deposit. In the light of the forward purchase, the securities continue to be recognised as assets; hence, the amount involved in the forward purchase is presented in the balance sheet under liabilities. Reverse repurchase transactions (reverse repos) are regarded as lending. The collateral received is not recognised in the balance sheet and does not, therefore, affect the balance sheet position of the portfolios concerned. Repos and reverse repos are reported in the following balance sheet items: 'Claims on non-euro area residents denominated in foreign currency', 'Claims on non-euro area residents denominated in euro', 'Other claims on euro area credit institutions denominated in euro' and 'Other liabilities'.

Other financial instruments

Other financial instruments include currency forward, currency swap and interest rate swap contracts. Currency forward and currency swap contracts are valued at forward prices, taking account of currency revaluations. Such revaluation differences follow the revaluation rules set out under 'General' above. The results of the revaluation of these forwards and swaps, and any unamortised forward results are reported in the balance sheet under 'Other assets' and 'Other liabilities'. For more details see the item concerned in the notes to the balance sheet below. Interest rate swap contracts involve exchanges of cash flows. The results are recognised on an accrual basis. Price revaluations of interest rate swaps follow the rules stated under 'General' above.

Intra-ESCB and intra-Eurosystem claims and liabilities

Intra-ESCB balances are the result of cross-border payments within the EU settled in euro by the central banks. Such transactions are for the most part initiated by private institutions. Most are settled within TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system 2) and give rise to bilateral balances in the TARGET2 accounts held by the EU central banks. On a daily basis, such bilateral balances are netted and assigned to the ECB, leaving every national central bank (NCB) with a single net bilateral balance vis-à-vis the ECB. DNB's position vis-à-vis the ECB and arising from TARGET2 transactions is presented, together with other euro-denominated positions within the ESCB (such as interim profit distributions to the NCBs and monetary income results), as an asset or liability item under 'Other intra-Eurosystem claims (net)' or 'Other intra-Eurosystem liabilities (net)' on the NCB's balance sheet. Positions held within the ESCB vis-à-vis NCBs outside the euro area and arising from TARGET2 transactions are reported in 'Claims on non-euro area residents denominated in euro' or 'Liabilities to non-euro area residents denominated in euro'. Intra-ESCB balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under 'Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem' (see below under 'Banknotes in circulation'). Intra-Eurosystem positions ensuing from the transfer of foreign currencies to the ECB by the NCBs that have joined the Eurosystem are reported in 'Claims equivalent to the transfer of foreign reserves to the ECB'.

Participating interests

Participating interests are valued at cost less any accumulated impairment losses. Income from participating interests is included in the profit and loss account under 'Income from equity shares and participating interests'.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at cost less accumulated depreciation or amortisation and any accumulated impairment losses. For intangible assets, in addition to the primary acquisition cost and the costs of external advisers relating to these assets, the in-house hours spent on these assets are also capitalised. For software developed in-house under 'Intangible fixed assets', a statutory reserve has been formed. Depreciation and amortisation are calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful life of buildings and renovations is 25 years, that of equipment, plant and furniture 10 years and that of computer hardware, software, motor vehicles and intangible assets 4 years. Land is not depreciated. Retired tangible fixed assets are valued at the lower of book value or expected realisable value.

Banknotes in circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes[2,3]. The shares in the total value of the euro banknote circulation is allocated to the Eurosystem central banks on the last working day of each month, in accordance with the banknote allocation key. The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the Eurosystem. The value of the share of banknotes in circulation allocated to each NCB is accounted for on the liabilities side of the balance sheet under 'Banknotes in circulation'. The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes actually circulated by the relevant NCB gives rise to further intra-Eurosystem positions. These interest-bearing claims or liabilities[4] are presented under 'Intra-Eurosystem claims/liabilities' ('Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem').

2 Decision of the ECB of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35 of 9 February 2011, p. 26, as amended.
3 Lietuvos bankas joined on 1 January 2015.
4 Decision of the ECB of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35 of 9 February 2011, p. 17.

For the five years following the year of the cash changeover[5], the intra-Eurosystem positions arising from the allocation of euro banknotes are adjusted in order to prevent significant changes in NCBs' relative income positions as compared with previous years. The adjustments are effected by taking into account the differences between the average value of banknotes put into circulation by each NCB in the reference period[6] and the average value of banknotes that would have been allocated to them during that period under the Eurosystem capital allocation key. The adjustments are reduced in annual stages until the first day of the sixth year after the cash changeover year. From then on, the income on banknotes is allocated fully to the NCBs in proportion to their paid-up shares in the ECB's capital. This year, there were adjustments as a result of the accession of Eesti Pank in 2011, Latvijas Banka in 2014 and Lietuvos bankas in 2015. These adjustments will expire on 31 December 2016, 2019 and 2020, respectively.

ECB profit distribution

The ECB's Governing Council has decided that the ECB's seigniorage income, arising from the 8% share of euro banknotes in circulation allocated to the ECB, as well as the income arising from securities purchased through the securities markets programme (SMP), the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP) and the public sector purchase programme (PSPP) will accrue to the euro area NCBs in the year in which this income is realised. Unless the ECB's Governing Council decides otherwise, the ECB will, in January of the following year, distribute this amount in the form of an interim profit distribution[7]. The amount will be distributed in full unless the ECB's net profit for the year is lower than the income from banknotes in circulation and the above-mentioned purchase programmes. The amount concerned may, subject to a decision to that effect by the ECB's Governing Council, be added to a provision for foreign exchange rate, interest rate, credit and gold price risks. The ECB's Governing Council may also decide to charge expenses arising from the ECB's issue and handling of euro banknotes to profit. After adoption by the ECB's Governing Council, the remaining profit is distributed to the NCBs of the Eurosystem in proportion to their weightings in the Eurosystem capital key. The amount distributed to DNB is presented in the profit and loss account under 'Income from equity shares and participating interests'.

5 The year of cash changeover is the year in which the Member State concerned introduces euro banknotes as legal tender.
6 The reference period is the 24-month period starting 30 months prior to the date on which euro banknotes will become legal tender in a particular Member State.
7 Decision ECB/2014/57 of 15 December 2014 on the interim allocation of the income of the European Central Bank (recast), (ECB/2014/57), OJ J 53 of 25 February 2015, p. 24.

Recognition of income and expenses

Income and expenses are recognised in the period in which they are earned or incurred. Realised gains and losses on investments are recognised in the profit and loss account according to the average cost method, except those concerning securities held to maturity, which are valued at amortised cost less any accumulated impairment losses. In the event that revaluation to market value results in an unrealised loss on any security at year-end, the average price of that security is reduced in line with the end-of-year market price and exchange rate. Unrealised gains are not recognised as income, but are transferred directly to the revaluation accounts. Unrealised losses are taken to the profit and loss account to the extent that they exceed the balance of the corresponding revaluation accounts. Any unrealised losses are not netted against any unrealised gains in later years.

Pension and other retirement schemes

The pension rights of staff and former staff of DNB and the former Pensions and Insurance Supervisory Authority of the Netherlands (PVK) as well as of other eligible persons have been transferred to Stichting Pensioenfonds van De Nederlandsche Bank N.V. (DNB Pension Fund). Through an agreement, DNB has undertaken to pay to the DNB Pension Fund, subject to conditions agreed for the purpose, such amounts as to ensure the pensions under the Pension Fund's pension schemes. In the agreement, the financial methodology is set out in a premium, supplement and risk policy ladder; in the target assets, allowance is made for the indexation ambition. The level of the amounts payable by DNB and the liabilities reported in the financial statements in respect of other retirement schemes are calculated on an actuarial basis.

2. Notes to the balance sheet

Assets

1. Gold and gold receivables

In the year under review, the gold holdings did not change. The gold holdings on the last business day of the financial year consisted of approximately 19.7 million fine troy ounces (or about 612 tonnes) of gold, unchanged from the previous financial year. The market value as at 31 December 2015 was EUR 973.23 (31 December 2014: EUR 987.77) per fine troy ounce. The euro value of this item decreased vis-à-vis 2014 due to a slight decrease in the euro market price of gold.

Millions

	EUR
Balance as at 31 December 2013	17,155
Revaluation 2014	2,295
Balance as at 31 December 2014	19,450
Revaluation 2015	(286)
Balance as at 31 December 2015	**19,164**

2. Claims on non-euro area residents denominated in foreign currency

As at 31 December 2015, these claims totalled EUR 15,993 million (31 December 2014: EUR 16,119 million) and can be broken down as follows:

- 2.1 Receivables from the International Monetary Fund (IMF)

On the last business day of the financial year, the receivables totalled SDR 6,318 million (31 December 2014: SDR 6,827 million) at the rate of SDR 0.7857 (31 December 2014: SDR 0.8386).

Millions

	31 December 2015		31 December 2014	
	SDR	EUR	SDR	EUR
Special drawing rights	4,716	6,003	4,570	5,449
Reserve tranche position	556	707	942	1,123
Loans	1,046	1,332	1,315	1,568
Total	**6,318**	**8,042**	**6,827**	**8,140**

Special drawing rights

As at 31 December 2015, DNB's special drawing rights amounted to EUR 6,003 million (31 December 2014: EUR 5,449 million). Special drawing rights represent the right to exchange (part of) the SDR holdings to obtain other currencies, such as USD or EUR. These rights were created against the liability item 'Counterpart of special drawing rights allocated by the IMF' of EUR 6,156 million (31 December 2014: EUR 5,767 million).

Reserve tranche position

The reserve tranche position of EUR 707 million as at 31 December 2015 (31 December 2014: EUR 1,123 million) concerns the funds provided by DNB to the IMF for lending by the IMF through the General Resources Account (GRA). IMF Member Countries are required to make at least 25% of their quotas available in the form of gold or convertible currencies. The Dutch quota, for which DNB acts as manager/agent, equals SDR 5,162 million. The IMF remunerates this position at an interest rate which is updated on a weekly basis. This interest rate was 0.04% (2014: 0.09%) on average in 2015.

Loans

The loans, standing at EUR 1,332 million as at 31 December 2015 (31 December 2014: EUR 1,568 million) consist of a loan to the Poverty Reduction and Growth Trust (PRGT) and the Dutch share in the New Arrangements to Borrow (NAB), a multilateral loan arrangement between 38 countries and the IMF. The loan to the PRGT stood at EUR 229 million (31 December 2014: EUR 279 million). The PRGT is a fund set up to supply the principles of subsidised low-interest loans to the poorest developing countries. This fund is split into several sub-accounts: the loan to the General Loan Account stood at EUR 11 million (31 December 2014: EUR 10 million), while the loan to the Extended Credit Facility (ECF) Loan Account amounted to EUR 218 million (31 December 2014: EUR 269 million). The Netherlands has pledged SDR 500 million to the General Loan Account and SDR 450 million to the ECF Loan Account. In respect of these amounts, a contract was agreed with the IMF entailing that each drawing must be repaid in ten equal tranches within five and a half to ten years after the drawing. DNB receives the market rate on the loan; the interest rate subsidy is financed by the Ministry of Foreign Affairs. For the Dutch participation in the NAB, DNB has made a credit line available of a maximum of SDR 9,044 million for use by the IMF for its regular operations in addition to the regular quota. Of this amount, DNB had already lent EUR 1,103 million as at the balance sheet date (31 December 2014: EUR 1,289 million).

In 2012, the financial efficacy of the IMF was increased through new bilateral loans totalling SDR 282 billion. The contribution of the Netherlands amounted to EUR 13.6 billion. The IMF has not yet drawn on this facility. These bilateral loans will function as the IMF's last financial line of defence in case the quotas and the NAB both face exhaustion. Their initial maturity is two years, and they can twice be renewed by one year under the existing agreement. The final one-year renewal took place in September 2015.

In 2010, the IMF proposed reforms involving quota increases. On 18 December 2015, the US Congress mandated the US administration to express its agreement with these reforms. Following ratification by the United States in early 2016, the IMF's Executive Board will establish that all conditions for the reforms have been met. For the Netherlands, this means the quota will be increased and the NAB limit lowered. In 2016, the Dutch quota will go up by SDR 3,574 million, 25% of which will immediately be made available to the IMF through the reserve tranche. At the same time, the NAB limit will be lowered from SDR 9,044 million to SDR 4,595 million. With outstanding NAB loans considerably below the new limit, they will not be impacted.

Since DNB is the implementing body of the Dutch IMF membership, credit guarantees up to the sum of the maximum commitment for each facility have been extended by the Dutch State.

- 2.2 Balances with banks and security investments, external loans and other external assets

As at 31 December 2015, this item stood at EUR 7,951 million (31 December 2014: EUR 7,979 million).

The table below specifies these balances in foreign currency by investment category.

Millions

	31 December 2015			31 December 2014		
	Foreign currency	EUR	Exchange rate	Foreign currency	EUR	Exchange rate
USD	7,233	6,644	1.0887	7,977	6,570	1.2141
JPY	44,171	337	131.07	72,470	499	145.23
AUD	1,445	970	1.4897	1,349	910	1.4829
Other currencies	0	0		0	0	
Total		**7,951**			**7,979**	

The table below specifies these balances in foreign currency by investment category.

Millions

	31 December 2015	31 December 2014
	EUR	EUR
Fixed-income securities	7,587	7,506
Reverse repos	361	467
Nostro accounts	3	6
Total	**7,951**	**7,979**

The table below sets out the maturities of the fixed-income securities.

Millions

	Residual maturity* 31 December 2015				Residual maturity* 31 December 2014			
	Total	0 - 1 year	1 - 2 years	> 2 years	Total	0 - 1 year	1 - 2 years	> 2 years
USD	**6,301**	3,172	1,948	1,181	**6,103**	3,282	1,853	968
JPY	**336**	336	-	-	**499**	499	-	-
AUD	**950**	464	231	255	**904**	619	98	187
Total	**7,587**	**3,972**	**2,179**	**1,436**	**7,506**	**4,400**	**1,951**	**1,155**

* For each investment, the residual maturity is the period between the balance sheet date and the expiration date.

3. Claims on euro area residents denominated in foreign currency

As at 31 December 2015, this item stood at EUR 231 million (31 December 2014: EUR 401 million). The year-end 2015 amount comprised fixed-income securities denominated in USD and AUD.

The table below sets out the maturities of the fixed-income securities.

Millions

	Residual maturity* 31 December 2015				Residual maturity* 31 December 2014			
	Total	0 - 1 year	1 - 2 years	> 2 years	Total	0 - 1 year	1 - 2 years	> 2 years
USD	**184**	69	115	-	**330**	207	41	82
AUD	**47**	40	7	-	**71**	22	42	7
Total	**231**	**109**	**122**	**-**	**401**	**229**	**83**	**89**

* For each investment, the residual maturity is the period between the balance sheet date and the expiration date.

4. Claims on non-euro area residents denominated in euro

As at 31 December 2015, these claims totalled EUR 359 million (31 December 2014: EUR 248 million) and consisted of fixed-income securities of EUR 254 million (31 December 2014: EUR 203 million), nostro accounts of EUR 65 million (31 December 2014: EUR 45 million) and reverse repos of EUR 40 million.

The table below sets out the maturities of the fixed-income securities.

Millions

	Residual maturity* 31 December 2015				Residual maturity* 31 December 2014			
	Total	0 - 1 year	1 - 2 years	> 2 years	Total	0 - 1 year	1 - 2 years	> 2 years
EUR	**254**	-	151	103	**203**	-	-	203

* For each investment, the residual maturity is the period between the balance sheet date and the expiration date.

5. Lending to euro area credit institutions related to monetary policy operations denominated in euro

As at 31 December 2015, the Eurosystem's claim arising from the item 'Lending to euro area credit institutions related to monetary policy operations denominated in euro' totalled EUR 558,989 million (31 December 2014: EUR 630,341 million). Of this total, lending to

Dutch-based credit institutions by DNB amounted to EUR 13,000 million as at 31 December 2015 (31 December 2014: EUR 10,782 million). In accordance with Article 32.4 of the ESCB Statute, all risks relating to such lending will, if materialised, be borne in full by the Eurosystem NCBs in proportion to the ECB capital key in force at the time when the loss is suffered. To have access to this facility, a financial institution must meet the requirements made by the ECB, including the collateral eligibility criteria. Losses occur only if the counterparty defaults on the repayment and, in addition, the sale of the collateral fails to cover the debt. It should be noted here that NCBs may temporarily accept supplementary collateral that fails to meet the eligibility standards. Any losses on such collateral will not be shared across the ESCB. Both in 2015 and 2014, DNB did not have reason to accept supplementary collateral.

- 5.1 Main refinancing operations

Main refinancing operations, amounting to EUR 315 million as at 31 December 2015 (31 December 2014: EUR 160 million), meet part of the financial sector's refinancing needs. They are conducted as standard tenders on a weekly basis, usually with a maturity of one week. All eligible counterparties may enter bids. The main refinancing operations have been conducted as fixed-rate tenders with full allotment of all bids since October 2008. The interest rate is the key policy rate adopted by the ECB Governing Council. In 2015, an average interest rate of 0.1% (2014: 0.1%) was received on the main refinancing operations.

- 5.2 Longer-term refinancing operations

Longer-term refinancing operations, amounting to EUR 12,685 million as at 31 December 2015 (31 December 2014: EUR 10,622 million), are refinancing operations which provide longer-term liquidity. They are usually conducted on a monthly basis, with a maturity of three months. In 2014 and 2015, several targeted longer-term refinancing operations (TLTROs) were conducted with maximum maturities of 48 months, with the aim of underpinning lending to the non-financial private sector (excluding residential mortgage loans). These operations were carried out as fixed-rate tenders at rates equalling the main refinancing rate at the time of announcement of the refinancing operation. In 2015, the interest rate received on the longer-term refinancing operations was on average 0.1% (2014: 0.2%).

- 5.3 Fine-tuning reverse operations

Fine-tuning reverse operations may be conducted both regularly and on an ad hoc basis with the aim of providing temporary liquidity to the market. Fine-tuning reverse operations are usually conducted by NCBs as quick tenders. As in 2014, no such operations were conducted in 2015.

- 5.4 Structural reverse operations

These operations may be conducted in order to adjust the structural position of the Eurosystem vis-à-vis the financial sector. As in 2014, no such operations were conducted in 2015.

- 5.5 Marginal lending facility

Counterparties may use this facility (amount outstanding nil, both as at year-end 2015 and 2014), to obtain overnight liquidity from NCBs at a predetermined interest rate in exchange for the usual collateral. The interest rate received on the marginal lending facility was 0.3% (2014: 0.5%) on average in 2015. In 2015, as in 2014, recourse to this facility remained very limited.

- 5.6 Credits related to margin calls

In 2015, as in 2014, no credits related to margin calls were extended.

6. Other claims on euro area credit institutions denominated in euro

As at 31 December 2015, this item stood at EUR 240 million (2014: EUR 251 million) and consisted entirely of short-term reverse repos. As at 31 December 2014, it consisted almost entirely of short-term reverse repos.

7. Securities of euro area residents denominated in euro

As at 31 December 2015, this item stood at EUR 56,527 million (2014: EUR 28,252 million) consisting of 'Securities held for monetary policy purposes' and 'Other securities'.

- 7.1 Securities held for monetary policy purposes

This item contains holdings of sovereign bonds acquired under the securities markets programme (SMP)[8,9], securities acquired by DNB under the covered bond purchase programmes (CBPP1, CBPP2 and CBPP3)[10] and government and other bonds acquired under the public sector purchase programme (PSPP)[11].

8 Decision of the European Central Bank of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124 of 20 May 2010, p. 8.

9 To hedge against credit and interest rate risks, the Dutch State has extended a guarantee (see: 'Buffers for crisis-related assets and monetary policy operations' on page 172).

10 Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175 of4 July 2009, p. 18, Decision of the ECB of 3 November 2011 on the implementation of the second covered bond programme (ECB/2011/17), OJ L 297 of 16 November 2011, p. 70 and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335 of 22 October 2014, p. 22.

11 Decision of the ECB of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10) OJ L121 of 14 May 2015, p. 20.

Millions

	31 December 2015		31 December 2014	
	Amortised cost	Market value	Amortised cost	Market value
	EUR	EUR	EUR	EUR
Covered bond purchase programme 1	920	971	1,190	1,275
Covered bond purchase programme 2	334	352	513	540
Covered bond purchase programme 3	7,907	7,913	1,544	1,551
Securities markets programme	7,237	8,233	7,846	8,948
Public sector purchase programme	23,119	23,110	-	-
Total	**39,517**	**40,579**	**11,093**	**12,314**

The table below sets out the maturities of the fixed-income securities.

Millions

	Residual maturity* 31 December 2015				Residual maturity* 31 December 2014			
	Total	0 - 1 year	1 - 2 years	> 2 years	Total	0 - 1 year	1 - 2 years	> 2 years
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Covered bond purchase programme 1	**920**	266	417	237	**1,190**	265	267	658
Covered bond purchase programme 2	**334**	75	145	114	**513**	179	76	258
Covered bond purchase programme 3	**7,907**	251	1,119	6,537	**1,544**	102	17	1,425
Securities markets programme	**7,237**	1,201	685	5,351	**7,846**	673	1,186	5,987
Public sector purchase programme	**23,119**	-	1,817	21,302	**-**	-	-	-
Total	**39,517**	**1,793**	**4,183**	**33,541**	**11,093**	**1,219**	**1,546**	**8,328**

* For each investment, the residual maturity is the period between the balance sheet date and the expiration date.

Under the covered bond purchase programmes (CBPP1, CBPP2 and CBPP3), the ECB and the Eurosystem NCBs, including DNB, purchased euro-denominated covered bonds issued in the euro area. The aim is to ease the funding conditions for credit institutions and enterprises, and to encourage credit institutions to maintain and expand their lending to customers. The CBPP3 started on 2 October 2014. The CBPP1 and CBPP2 were terminated on 30 June 2010 and 31 October 2012, respectively.

Under the SMP, the ECB and the NCBs of the Eurosystem were purchased debt securities issued by euro area governments and private organisations so as to improve the functioning of certain segments of the euro area capital markets and to restore the sound operation of the monetary policy transmission mechanism. On 6 September 2012, the Governing Council of the ECB decided to terminate this programme. As at 31 December 2015, the holdings of SMP securities held by the Eurosystem NCBs totalled EUR 122,952 million (2014: EUR 144,263 million). At year-end 2015, DNB's holdings of such securities stood at EUR 7,237 million (2014: EUR 7,846 million).

On 22 January 2015, the ECB's Governing Council decided to extend the programme of securities held for monetary policy purposes to include secondary market purchases of securities issued by the public sector (public sector asset purchase programme – PSPP). This purchase programme aims to provide further monetary and financial boundary conditions, including those relating to loan terms for euro area non-financial corporations and households. This will support total consumer and investment expenditure across the euro area, which will eventually contribute to a return, in the medium term, to inflation levels below but close to 2%. Under the programme, the ECB and the NCBs may purchase, in the secondary markets, euro-denominated securities issued by euro area central governments and agencies and European supranational institutions. Combined, the purchases under the CBPP3, the ABSPP and the PSPP should amount to EUR 60 billion a month. On 2 December 2015, the ECB's Governing Council decided to extend the expanded asset purchase programme (EAPP), including the programmes referred to above, by at least six months and reinvest the proceeds from the expiring bonds.

Under the asset-backed securities purchase programme (ABSPP) set up in October 2014, the Eurosystem can purchase highly-rated tranches of asset-backed securities in both primary and secondary markets, with the aim of providing credit to the euro area economy. The ECB has purchased these securities since November 2014.

In accordance with Article 32.4 of the ESCB Statute, all risks relating to the CBPP3, SMP and PSPP (in respect of the supranational portion) will, if materialised, be borne in full by the Eurosystem NCBs in proportion to the ECB capital key in force at the time when the loss is incurred.

The Eurosystem conducts annual impairment tests on the basis of the accounting policies applicable to the ESCB (see under 'Accounting policies' above), the available information and expected recoverable amounts at the year-end. DNB's policy is in accordance with a Decision by the ECB Governing Council. The impairment tests of the securities purchased under the SMP, the CBPP1, CBPP2 and CBPP3 and the PSPP did not result in the recognition of any impairment losses. Nevertheless, considerable risks owing to the debt crisis remain and may still give rise to losses. The Governing Council of the ECB and the Governing Board of DNB regularly assess the financial risks attaching to the securities held in the SMP, CBPP and PSPP portfolios. Section 5.6 of the Annual Report provides a more detailed discussion of various risks, including the risks to which these portfolios are exposed.

- 7.2 Other securities

As at 31 December 2015, this item totalled EUR 17,010 million (2014: EUR 17,159 million) and consisted, as in 2014, entirely of euro-denominated fixed-income securities, which are valued at market value.

The table below provides a breakdown of the maturities of the fixed-income securities.

Millions

	Residual maturity* 31 December 2015				Residual maturity* 31 December 2014			
	Total	0 - 1 year	1 - 2 years	> 2 years	Total	0 - 1 year	1 - 2 years	> 2 years
EUR	**17,010**	4,589	5,574	6,847	**17,159**	5,596	3,767	7,796

* For each investment, the residual maturity is the period between the balance sheet date and the expiration date.

8. Intra-Eurosystem claims

As at 31 December 2015, intra-Eurosystem claims totalled EUR 102,139 million (2014: EUR 62,157 million).

- 8.1 Participating interest in the ECB

This item represents DNB's participating interest in the ECB of EUR 482 million (2014: EUR 482 million), including EUR 49 million in additional paid-up capital. The participating interest in the ECB is measured at cost.

Pursuant to Article 28 of the ESCB Statute, the NCBs of the ESCB are the sole subscribers to the capital of the ECB. The level of subscriptions is dependent on shares which are fixed in accordance with Article 29 of the ESCB Statute and which are adjusted every five years. The most recent capital key adjustments were made on 1 January 2014.

The table below sets out the NCBs' shares in the authorised, subscribed and paid-up capital of the ECB.

Millions

	Eurosystem capital key since 1 January 2015	Capital key since 1 January 2015	Authorised and subscribed capital since 1 January 2015	Paid-up capital since 1 January 2015
	%	%	EUR	EUR
National Bank of Belgium/ Banque Nationale de Belgique	3.5200	2.4778	268	268
Deutsche Bundesbank	25.5674	17.9973	1,948	1,948
Eesti Pank	0.2739	0.1928	21	21
Central Bank and Financial Services Authority of Ireland	1.6489	1.1607	126	126
Bank of Greece	2.8884	2.0332	220	220
Banco de España	12.5596	8.8409	957	957
Banque de France	20.1433	14.1792	1,535	1,535
Banca d'Italia	17.4890	12.3108	1,333	1,333
Central Bank of Cyprus	0.2149	0.1513	16	16
Latvijas Banka	0.4008	0.2821	31	31
Lietuvos bankas	0.5870	0.4132	45	45
Banque centrale du Luxembourg	0.2884	0.2030	22	22
Central Bank of Malta	0.0921	0.0648	7	7
De Nederlandsche Bank	**5.6875**	**4.0035**	**433**	**433**
Oesterreichische Nationalbank	2.7888	1.9631	213	213
Banco de Portugal	2.4767	1.7434	189	189
Banka Slovenije	0.4908	0.3455	37	37
Národná banka Slovenska	1.0974	0.7725	84	84
Suomen Pankki-Finlands Bank	1.7849	1.2564	136	136
Total euro area NCBs	100.0000	70.3915	7,621	7,621
Bulgarian National Bank	-	0.8590	93	3
Česká národní banka	-	1.6075	174	7
Danmarks Nationalbank	-	1.4873	161	6
Hrvatska narodna banka	-	0.6023	65	2
Magyar Nemzeti Bank	-	1.3798	149	6
Narodowy Bank Polski	-	5.1230	555	21
Banca Natională a României	-	2.6024	282	11
Sveriges Riksbank	-	2.2729	246	9
Bank of England	-	13.6743	1,480	56
Total non-euro area NCBs	-	29.6085	3,205	120
Total euro area and non-euro area NCBs	**-**	**100.0000**	**10,826**	**7,741**

- 8.2 Claims equivalent to the transfer of foreign reserves to the ECB

As at 31 December 2015, these claims – arising from the transfer of foreign reserve assets to the ECB – totalled EUR 2,320 million (2014: EUR 2,320 million). The interest paid on these claims is calculated daily at the latest established rate used in the main refinancing operations of the Eurosystem, with a zero return on the gold component.

- 8.4 Net claims related to the allocation of euro banknotes within the Eurosystem

This item, of EUR 44,729 million as at 31 December 2015 (2014: EUR 39,907 million), consists of a net claim of DNB on the Eurosystem relating to the reallocation of euro banknotes (see 'Intra-ESCB and intra-Eurosystem claims and liabilities' and 'Banknotes in circulation' under 'Accounting policies'). The EUR 4,822 million increase compared to 2014 is largely due to the banknotes in circulation within the Eurosystem as a whole growing by 6%. The interest rate on these claims is calculated daily at the latest available rate used in the main refinancing operations of the Eurosystem.

- 8.5 Other claims within the Eurosystem (net) / 8.2 Other liabilities within the Eurosystem (net)

Millions

	31 December 2015	31 December 2014
	EUR	EUR
Claims on the ECB in respect of TARGET2 (including balances held with Eurosystem banks through correspondent accounts)	54,728	19,412
Due to/from ECB in respect of monetary income	(166)	(12)
Due from ECB in respect of the ECB interim profit distribution	46	48
Total	**54,608**	**19,448**

The level of this claim or liability depends on three components:

- the claims of DNB on the ECB related to receipts and payments via TARGET2;
- DNB's position vis-à-vis the ECB arising from intra-Eurosystem pooling and allocation of monetary income; and
- DNB's position vis-à-vis the ECB arising from other amounts received or paid, including DNB's share in interim profit distributions by the ECB.

The first component gave rise to a TARGET2 claim of EUR 54,728 million as at 31 December 2015 (2014: EUR 19,412 million). The remuneration of these claims is calculated daily at the latest available marginal interest rate used in the main refinancing operations of the Eurosystem. The second component, i.e. DNB's position vis-à-vis the ECB due to the annual pooling and distribution of monetary income by the Eurosystem NCBs shows a net credit balance of EUR 166 million at the end of the year (2014: EUR (12) million) (see 'Net result of monetary income pooling' in the notes to the profit and loss account).

For 2015, the Governing Council of the ECB decided to distribute interim profits of EUR 812 million to the euro area NCBs. As at 31 December 2015, the amount owed to DNB totalled EUR 46 million (see 'Income from equity shares and participating interests' in the profit and loss account).

9. Other assets

As at 31 December 2015, this item stood at EUR 2,783 million (2014: EUR 2,577 million).

- 9.2 Tangible and intangible fixed assets

The table below sets out the components of, and movements in, 'Tangible and intangible fixed assets'.

Millions

	Total tangible and intangible fixed assets	Total tangible fixed assets	Buildings and land	Fittings	Fixed assets under construction	Total intangible fixed assets	Development costs (software)
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Book value as at 1 January 2015	**252**	217	156	31	30	35	35
Movements:							
Reclassification	**-**	-	-	-	-	-	-
Additions	**45**	32	15	18	(1)	13	13
Disposals	**(2)**	(2)	-	(2)	-	-	-
Depreciation and amortisation	**(33)**	(22)	(11)	(11)	-	(11)	(11)
Impairment losses	**-**	-	-	-	-	-	-
Book value as at 31 December 2015	**262**	225	160	36	29	37	37
Cost	**602**	536	391	116	29	66	66
Accumulated depreciation and amortisation	**(340)**	(311)	(231)	(80)	-	(29)	(29)
Book value as at 31 December 2015	**262**	**225**	**160**	**36**	**29**	**37**	**37**

- 9.3 Other financial assets

The table below provides a breakdown of 'Other financial assets' by currency.

Millions

	31 December 2015	31 December 2014
	EUR	EUR
EUR	370	704
USD	1,214	1,094
Other foreign currencies	-	-
Total	**1,584**	**1,798**

The table below sets out the sub-categories of 'Other financial assets'.

Millions

	31 December 2015	31 December 2014
	EUR	EUR
Participating interests	61	61
Equities	1,299	1,539
Other receivables	224	198
Total	**1,584**	**1,798**

Participating interests

The participating interests concern shares in the Bank for International Settlements (BIS), the Society for Worldwide Interbank Financial Telecommunications scrl (SWIFT), and N.V. Settlement Bank of the Netherlands (SBN). The shareholding percentages for the BIS and SBN are unchanged from 2014, whereas that for SWIFT changed from 0.06% in 2014 to 0.04% in 2015. The BIS shares are 25% paid-up; as at 31 December 2015, the contingent liability for the uncalled part of the shares stood at SDR 64.9 million (31 December 2014: SDR 64.9 million). Although DNB holds 100% of the shares in the SBN, this entity is not within DNB's scope of consolidation. The reason is that DNB cannot exercise any significant policy-making influence over SBN, which is entirely controlled by external parties.

Millions

Participating interests	Participation share	Location	Shareholders' equity*	31 December 2015	31 December 2014
			EUR	EUR	EUR
BIS	3,10	Basel (Switzerland)	23,444	52	52
SWIFT scrl	0,04	La Hulpe (Belgium)	326	0	0
SBN	100	Amsterdam	9	9	9
Total				**61**	**61**

* Shareholders' equity of SWIFT scrl and SBN is based on the 2014 annual financial statements. Shareholders' equity of the BIS is based on the 2015 annual financial statements (financial year from 1 April 2014 through 31 March 2015).

Equities

The equities consist of equity index investments. The equity indexes reported in 'Other financial assets' are equity index funds with a corporate social responsibility (CSR) exclusion policy. These funds follow the MSCI index, but exclude companies that do not comply with the UN Global Compact principles. These principles are aimed at preventing abuse concerning human rights, the environment, labour and corruption.

Other receivables

'Other receivables' include mainly receivables arising from mortgage loans extended to DNB staff.

- 9.5 Accruals and prepaid expenses

As at 31 December 2015, this item stood at EUR 887 million (2014: EUR 514 million), consisting almost entirely of accrued interest and unamortised forward results. The table below provides a breakdown of the unamortised results.

Millions

	31 December 2015	31 December 2014
	EUR	EUR
Currency swaps	63	12
Currency forwards	(2)	(4)
Interest rate swaps	0	0
Total	**61**	**8**

Liabilities

1. Banknotes in circulation

This item represents DNB's share in the total euro banknotes circulated by the Eurosystem (see 'Banknotes in circulation' under 'Accounting policies' above).

The table below sets out the composition of banknotes put into circulation by DNB less banknotes returned to DNB, by denomination.

Millions

	31 December 2015		31 December 2014	
	Number	EUR	Number	EUR
EUR 5	(122)	(609)	(106)	(531)
EUR 10	(123)	(1,229)	(101)	(1,009)
EUR 20	(489)	(9,780)	(443)	(8,863)
EUR 50	447	22,372	422	21,111
EUR 100	(14)	(1,415)	(8)	(802)
EUR 200	31	6,217	31	6,151
EUR 500	(7)	(3,595)	(5)	(2,459)
Total euro banknotes circulated by DNB		11,961		13,598
Reallocation of euro banknotes in circulation	49,659		44,560	
Euro banknotes allocated to the ECB (8% of 11,961 + 49,659)	(4,930)		(4,653)	
		44,729		39,907
Total		**56,690**		**53,505**

In 2015 the total value of the banknotes in circulation within the Eurosystem rose by 6%. As a result of the reallocation of banknotes, DNB's banknotes in circulation totalled EUR 56,690 million at year-end 2015 (2014: EUR 53,505 million). The value of the banknotes actually put into circulation by DNB decreased by 12%, from EUR 13,598 million to EUR 11,961 million. The difference of EUR 44,729 million between the reallocated amount and the total amount of euro banknotes put into circulation through DNB is recognised under 'Net claims related to the allocation of euro banknotes within the Eurosystem'. The negative numbers of banknotes for certain denominations are accounted for by the fact that, on a net basis, DNB issued fewer of these banknotes than it received from circulation.

DNB has entered into consignment agreements with commercial banks, under which these banks hold banknotes on location overnight, with DNB being the legal and beneficial owner of the banknotes. The item 'Banknotes in circulation' does not include the movement in banknotes held on consignment overnight from 30 December to 31 December 2015: EUR 313 million (2014: EUR 28 million). The banknotes given on consignment are processed on the first business day after the year-end.

2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

This item relates to interest-bearing liabilities to credit institutions arising from DNB's money market policy conducted on behalf of the Eurosystem. It increased by EUR 64,456 million to EUR 114,399 million as at 31 December 2015 (2014: EUR 49,943 million).

As at 31 December 2015, the breakdown of 'Liabilities to euro area credit institutions related to monetary policy operations denominated in euro' was as follows:

- 2.1 Current accounts (covering the minimum reserve system)

These liabilities, amounting to EUR 98,260 million as at 31 December 2015 (2014: EUR 44,418 million), relate to amounts held by banks in accounts with DNB, including amounts held in order to meet their minimum reserve requirements. Interest is paid on these compulsory reserve holdings at a rate corresponding to the average marginal rate in the main refinancing operations during the reserve maintenance period. Since June 2014, commercial banks have paid an interest rate corresponding to the negative deposit rate on amounts they deposited with DNB in excess of the cash reserve requirement. In 2015, the average interest rate on the current accounts was (0.17)% (2014: 0.07%).

- 2.2 Deposit facility

This permanent facility, amounting to EUR 16,139 million as at 31 December 2015 (2014: EUR 5,525 million), may be used by credit institutions to place overnight deposits at DNB at a pre-specified interest rate. In 2015, the average interest rate on the deposit facility was (0.2)% (2014: (0.1%)).

- 2.3 Fixed-term deposits

These are deposits placed with DNB, amounting to nil as at 31 December 2015 (2014: nil). In contrast with 2014, no bids were made in 2015.

- 2.4 Fine-tuning reverse operations

These are monetary policy operations intended to tighten liquidity. In 2015, as in 2014, no fine-tuning reverse operations were effected.

- 2.5 Deposits related to margin calls

These are deposits made by credit institutions to compensate any decrease in value of securities pledged as collateral for credits granted to those institutions. In 2015, as in 2014, no deposits related to margin calls were held.

3. Liabilities to other euro area residents denominated in euro

This item, amounting to EUR 1,360 million as at 31 December 2015 (2014: EUR 1,862 million) consists mainly of liabilities payable on demand to financial institutions.

4. Liabilities to non-euro area residents denominated in euro

This item, amounting to EUR 4,062 million as at 31 December 2015 (2014: EUR 587 million), consists mainly of liabilities to non-euro area financial institutions.

7. Counterpart of special drawing rights allocated by the IMF

This item is disclosed under the asset item 'Receivables from the International Monetary Fund (IMF)'.

9. Other liabilities

As at 31 December 2015, this item stood at EUR 348 million (2014: EUR 595 million)

- 9.1. Off-balance sheet instruments revaluation differences

This item is composed of the currency revaluation differences on the off-balance sheet instruments. As at 31 December 2015, the currency revaluation differences stood at EUR 208 million (2014: EUR 488 million). The breakdown of the revaluation differences can be found in the table of off-balance sheet positions relating to currency swaps, currency forwards and interest rate swaps on page 171.

10. Provisions

Provisions can be broken down as follows:

Millions

	Total	Provision for credit and interest rate risks	Provision for employee benefits	Other provisions
	EUR	EUR	EUR	EUR
Balance as at 31 December 2013	**15**	-	12	3
Withdrawal	**(2)**	-	(1)	(1)
Release	**(1)**	-	0	(1)
Addition	**10**	-	2	8
Balance as at 31 December 2014	**22**	-	13	9
Withdrawal	**(7)**	-	0	(7)
Release	**(2)**	-	(1)	(1)
Addition	**503**	500	0	3
Balance as at 31 December 2015	**516**	**500**	**12**	**4**

Provision for credit and interest rate risks

Due to the crisis, the balance sheet items related to the monetary operations and associated risks have substantially increased. In January 2015, the ECB's Governing Council decided that bonds were to be purchased under the large-scale asset purchase programme. In December 2015, it decided to extend the programme by at least six months and reinvest the proceeds from the expiring bonds. These decisions result in risk increases of such a magnitude – and a longer duration – that DNB's Governing Board has deemed it necessary to form a provision for credit and interest rate risks. The expected shortfall method (99%) and scenario analyses were used to measure the risks.

Provision for employee benefits

DNB operates the following arrangements:

- a defined benefit pension scheme;
- a contribution to the health care insurance premiums of pensioners (limited group);
- a service anniversary and retirement bonus arrangement; and
- a social plan arrangement.

Effective 1 January 2015, DNB operates a new staff pension scheme, which meets all statutory and tax requirements prevailing on that date. On the same date, a new financial assessment framework entered into effect. The staff pension scheme now features provisional indexation based on the consumer price index that is in line with that for pensioners and former DNB staff. From this year on, in conformity with the new financial assessment framework, indexation takes place only if the DNB Pension Fund's financial position allows this. As at 31 December 2015, the funding ratio of the Pension Fund DNB based on the ultimate forward rate, in line with DNB requirements, stood at 116.1%, so that a state of underfunding did not exist on that date.

The contribution towards the health insurance premiums payable by pensioners is an allowance for a limited group of pensioners towards the costs concerned and may be characterised as a temporary transitional arrangement.

The service anniversary and retirement bonus arrangements provide for bonuses payable to staff upon 20, 30 and 40 years' service, for bonuses payable to staff upon retirement and payments made to surviving dependants.

The liabilities and annual costs are actuarially determined. The assumptions used were:

	31 December 2015	31 December 2014
Discount rate for other employee benefits	Scheme-dependent (anniversaries: 1.80% other: 1.80%)	Scheme-dependent (anniversaries: 1.55% other: 1.55%)
Price inflation	2,0%	2,0%
General salary increase	2,0%	2,0%
Individual salary increase (average)	2,0%	2,0%
Expected retirement age	Assumption for all participants: 66 years	Assumption for all participants: 66 years
Mortality outlook	AG 2014 mortality table + mortality experience	AG 2014 mortality table + mortality experience

Other provisions

These provisions relate to reorganisations and the like. A total of EUR 3 million of 'Other provisions' has a maturity of less than one year, while EUR 1 million has a maturity of between one and five years.

11. Revaluation accounts

The table below sets out the components of, and net movements in, the revaluation accounts.

Millions

	Total	Gold	Foreign currency	Securities and other financial instruments
	EUR	EUR	EUR	EUR
Balance as at 31 December 2013	**16,846**	16,029	25	792
Net revaluation movements	**2,289**	2,295	29	(35)
Balance as at 31 December 2014	**19,135**	18,324	54	757
Net revaluation movements	**(331)**	(286)	79	(124)
Balance as at 31 December 2015	**18,804**	**18,038**	**133**	**633**

12. Capital and reserves

DNB's authorised capital, which is fully issued and paid up, amounts to EUR 500 million and is divided into 500 shares of EUR 1 million each. All shares are held by the Dutch State. The statutory reserve has been formed for the book value of the intangible fixed assets developed in-house.

The table below sets out the movements in capital and reserves before appropriation of profits:

Millions

	Total	Issued capital	General reserve	Statutory reserve
	EUR	EUR	EUR	EUR
Balance as at 31 December 2013	**7,811**	500	7,287	24
Profit for the year 2013	**1,178**			
Dividend	**(1,119)**			
Addition of 2013 net profit*	**59**		59	
Movement in statutory reserve	**-**		(11)	11
Balance as at 31 December 2014	**7,870**	500	7,335	35
Profit for the year 2014	**951**			
Dividend	**(903)**			
Addition of 2014 net profit*	**48**		48	
Movement in statutory reserve	**-**		(2)	2
Balance as at 31 December 2015	**7,918**	**500**	**7,381**	**37**

* Net profit transfer concerns profit after dividend payment.

13. Profit for the year

The profit for the year 2015 was EUR 183 million (2014: EUR 951 million)

Other notes to the balance sheet

Foreign currency position

DNB has fully hedged the exchange rate risk of its USD, SDR and AUD exposures, except for working stocks. These are recognised under asset items 'Balances with banks and security investments, external loans and other external assets' and 'Claims on euro area residents denominated in foreign currency' and that of the SDR position included in asset item 'Receivables from the International Monetary Fund (IMF)' and liability item 'Counterpart of special drawing right allocated by the IMF'.

As at 31 December 2015, the euro equivalent of the total sum of assets denominated in foreign currency (included in asset items 2, 3 and 9.3) amounted to EUR 17,437 million (2014: EUR 17,614 million). As at 31 December 2015, the euro equivalent of the total sum of liabilities denominated in foreign currency (included in liability items 5, 6 and 7) stood at EUR 6,156 million (2014: EUR 5,767 million). The off-balance sheet positions in respect of foreign currencies are shown below.

Off-balance sheet positions relating to currency swaps and currency forwards

Millions

	31 December 2015							31 December 2014						
	Total	EUR	USD	JPY	GBP	AUD	SDR	Total	EUR	USD	JPY	GBP	AUD	SDR
Currency swaps														
Receivables	**10,236**	9,901	335	-	-	-	-	**10,888**	10,367	521	-	-	-	-
Payables	**(10,446)**	-	(7,301)	(346)	(15)	(1,034)	(1,750)	**(11,378)**	-	(7,597)	(507)	(14)	(994)	(2,266)
	(210)	9,901	(6,966)	(346)	(15)	(1,034)	(1,750)	**(490)**	10,367	(7,076)	(507)	(14)	(994)	(2,266)
Currency forwards														
Receivables	**2,158**	1,040	1,118	-	-	-	-	**838**	403	435	0	-	-	-
Payables	**(2,156)**	(1,034)	(1,122)	-	-	-	-	**(836)**	(395)	(441)	0	-	-	-
	2	6	(4)	-	-	-	-	**2**	8	(6)	0	-	-	-
Total	**(208)**	**9,907**	**(6,970)**	**(346)**	**(15)**	**(1,034)**	**(1,750)**	**(488)**	**10,375**	**(7,082)**	**(507)**	**(14)**	**(994)**	**(2,266)**

The above instruments are used to hedge currency risks. The total of EUR (208) million represents the net balance of currency revaluation differences on these instruments, reported as a liability in 'Off-balance sheet instruments revaluation differences'.

Currency swaps
A currency swap is a transaction in which parties agree to directly buy or sell one currency in exchange for another currency at the spot rate and to sell or buy back the currency at the forward rate after a specified period. The spot purchase or sale is shown in the balance sheet, while the forward sale or purchase is recorded as an off-balance sheet item at the forward rate.

Currency forwards
A currency forward contract is a transaction in which parties agree to buy or sell a currency in return for another currency at a specific rate and for delivery at a date in the future. These positions are shown off-balance sheet, at the forward rate. Differences between the spot and forward rates for currency swaps and forwards are amortised and recognised in the profit and loss account. Unamortised forward results are recognised in the balance sheet under 'Accruals and prepaid expenses'. These currency positions are included in the revaluation accounts in the balance sheet.

Custody
DNB holds securities and other documents of value in custody for third parties. Such custody is for the account and risk of the depositors.

Buffers for crisis-related assets and monetary policy operations
The financial risks for DNB increased in 2015 as a result of the measures taken by the Eurosystem to stabilise the functioning of the euro area, and they are still at a high level. The financial risk (excluding gold) as at 31 December 2015 was determined at EUR 12.7 billion. DNB uses the expected shortfall (ES) method to measure and manage its financial risks, with various scenarios being played out. The resulting estimated risk is higher than the total capital and reserves of EUR 7.9 billion. In March 2013, given the risks arising from the debt crisis, the Minister of Finance issued a free and unconditional guarantee of up to EUR 5.7 billion on the basis of the scenario risks as at 31 December 2012. The guarantee relates to DNB's share in possible losses on crisis-related exposures in the monetary portfolios[12]. In addition, DNB has formed a provision for credit and interest rate risks in the amount of EUR 500 million.

12 More information on DNB's financial risks can be found in Section 5.6 of the Annual Report.

Off-balance sheet rights and liabilities

Liability claims and procedures

By reason of its supervisory task or otherwise, DNB may receive liability notices or pre-announcements of such notices. In some cases liability proceedings have been brought against DNB. Where the liability amounts cannot reasonably be estimated or where reasonable doubts remain as to whether a liability will have to be settled, DNB suffices by mentioning such cases in this section. The relevant current cases are discussed in more detail below.

Claims of Fortis shareholders

A group of Belgian Fortis shareholders has brought proceedings against DNB – as well as against the Dutch State and Fortis – before the Brussels Commercial Court in an action that includes a claim for damages of EUR 5 per share. In line with the earlier Commercial Court decision, the appeal court ruled in 2013 that the Dutch State and DNB could not be tried before a Belgian court on the grounds of immunity. In July 2014, the Fortis shareholders appealed from this decision to the supreme court, which issued its ruling in late 2015, upholding the appeal court's decision. This has put an end to these proceedings.

Receivers in the bankruptcy of DSB Bank and several interest groups

In November 2013, the receivers in the bankruptcy of DSB Bank and several interest groups of account holders at DSB Bank instituted legal proceedings against DNB before the Amsterdam District Court. In sum, the claimants asked the court to find that DNB had acted unlawfully and is therefore liable to pay damages for losses arising from the bankruptcy of DSB Bank. In April 2015, the court ruled that DNB could not be held liable for any losses suffered by the DSB Bank estate and the joint creditors arising from DSB Bank's bankruptcy, dismissing the claims. The receivers and the interest groups appealed from this decision, but announced to withdraw their appeal in December 2015.

Stichting Pensioenfonds Vereenigde Glasfabrieken

DNB has instructed this pension fund to mitigate or reduce its sizeable investments in gold. This decision, which was upheld in the objection procedure, was rejected by the district court. On 10 September 2013, the Appeals Board for Trade and Industry rejected DNB's appeal against the nullification and retraction of DNB's decisions by the district court. Following the rejection, the district court continued the proceedings to determine the size of any damages. The pension fund claimed it had sustained a loss of approximately EUR 9,500,000 caused by the reduction of its gold investment. The district court ordered DNB on 11 December 2014 to pay damages of EUR 4,821,966, plus statutory interest. DNB appealed from this decision, after which the pension fund also appealed. The court of appeal's decision is expected to be issued in 2016.

GSFS Asset Management B.V., Stichting GSFS Pensionfund and some individual pension scheme participants

GSFS Asset Management B.V., Stichting GSFS Pensionfund and thirteen individual pension scheme participants instituted legal proceedings against DNB in February 2014. Among other things, they assert that DNB acted unlawfully towards the pension fund, the asset manager and the pension fund participants by deciding that the pension fund did not qualify as a pension fund within the meaning of the Pensions Act (Pensioenwet), and that its pension fund registration would be revoked. The Amsterdam District Court dismissed the claimants' claims in its ruling of 28 January 2015. The claimants appealed from the ruling. The court of appeal's decision is expected to be issued in 2016.

Investment fund director and two claim foundations

In April 2015, an investment fund director and two claim foundations (claimants) instituted legal proceedings in Nova Scotia, Canada, against various parties, including DNB, the Netherlands Authority for the Financial Markets (AFM), the Dutch State and the Dutch Tax and Customs Administration. The claimants assert that various parties, including DNB and the AFM did everything they could to force the relevant director to give up his positions and his control over the investment fund and to force the fund to leave the Netherlands. They further assert that DNB and the AFM unjustly blocked a restructuring of the investment fund. Arguing that DNB and other parties acted unlawfully, they claim damages for resulting losses.

3. Notes to the profit and loss account

Operating income

1 and 2 Net interest income

This item includes interest income and interest expense in respect of the assets and liabilities denominated in euro.

The table below provides a breakdown of interest income.

Millions

	2015	2014
	EUR	EUR
Investments	166	124
Money market lending	15	12
Money market liabilities	168	15
Monetary portfolios	495	575
Eurosystem claims/liabilities	45	111
Total	**889**	**837**

Interest income increased due to higher liabilities to euro area credit institutions. Interest has been paid to DNB on these liabilities since June 2014 at a rate equalling the negative rate on the deposit facility.

The table below sets out the components of interest expense.

Millions

	2015	2014
	EUR	EUR
Money market liabilities	(7)	(58)
Other	(75)	(46)
Total	**(82)**	**(104)**

3. Realised gains/(losses) from financial operations

Millions

	2015	2014
	EUR	EUR
Net realised exchange rate gains/(losses)	(2)	24
Net realised price gains on fixed-income securities	16	144
Net realised price gains on equities	167	201
Total	**181**	**369**

The net realised price gains on both fixed-income securities and equities decreased as a result of smaller sales volumes in 2015.

4. Write-downs on financial assets and positions

The write-downs of EUR 25 million (2014: EUR 20 million) consisted largely of price revaluation losses on fixed-income securities, with the remainder comprising currency revaluation losses.

5. Reclassified to and from provision for credit and interest rate risks

Further to the outcome of the risk assessment, an amount of EUR 500 million was added to the provision for credit and interest rate risks.

8. Income from equity shares and participating interests

In 2015 income from equity shares and participating interest was EUR 63 million and mainly included the results of DNB's participating interest in the ECB (EUR 55 million). In 2014 this item stood at EUR 71 million, with the largest individual item being the result from the participating interest in the ECB (EUR 52 million).

9. Net result of monetary income pooling

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarked assets held against its liability base. The earmarkable assets consist of the following items: 'Lending to euro area credit institutions related to monetary policy operations denominated in euro', 'Securities held for monetary policy purposes', 'Claims equivalent to the transfer of foreign reserves to the ECB', 'Net claims related to the allocation of euro banknotes within the Eurosystem', 'Other intra-Eurosystem claims (net)' and a limited amount of gold reserves in proportion to the Eurosystem's capital key.

Gold is assumed to generate no income. Securities held for monetary policy purposes[13] are deemed to generate income at the refinancing rate. Where the value of an NCB's earmarked assets financial statements exceeds or falls short of the value of its liability base, the difference is offset by applying the refinancing percentage to the value of the difference. The income on the earmarked assets is included under 'Interest income'. The liability base consists of the following items: 'Banknotes in circulation', 'Liabilities to euro area credit institutions related to monetary policy operations denominated in euro' and 'Other intra-Eurosystem liabilities (net)'. Any interest paid on items included in the liability base is deducted from the monetary income to be pooled.

The net result of monetary income pooling can be broken down as follows:

Millions

	2015	2014
	EUR	EUR
Monetary income accruing to DNB	511	569
Monetary income earned by DNB	(677)	(619)
Result of monetary income pooling	(166)	(50)
Adjustment of monetary income pooling preceding years	0	38
Net result of monetary income pooling	**(166)**	**(12)**

The monetary income pooled by the Eurosystem NCBs is to be allocated among the NCBs in proportion to the subscribed capital key. Monetary income pooling and redistribution leads to redistribution effects. Such effects may arise from, on the one hand, differences between NCBs of the Eurosystem with respect to returns on certain earmarked assets or interest paid on related liabilities. On the other hand, the shares of earmarkable assets and related liabilities of those national banks differ from the shares in the total earmarked assets and related liabilities allocated to the NCBs according to the Eurosystem capital key. For DNB, the result of monetary income pooling of EUR (166) million (2014: EUR (50) million) arises from the difference between the monetary income pooled by DNB, amounting to EUR 677 million, and the monetary income reallocated to DNB based on the capital key, amounting to EUR 511 million.

13 Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme' and 'Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme.

10. Other income

This item includes the fees raised from the supervised institutions to cover supervisions costs, as well as the government contribution to the performance of supervisory activities.

Millions

	2015	2014
	EUR	EUR
Fees from supervised institutions	147	163
Government contribution	2	21
Other	8	3
Total	**157**	**187**

Operating costs

The table below sets out the components of the operating costs.

Millions

	2015	2014
	EUR	EUR
Staff costs	(204)	(211)
Other administrative costs	(86)	(120)
Depreciation and amortisation of tangible and intangible fixed assets	(35)	(32)
Banknote production costs	(16)	(23)
Other costs	0	0
Capitalised software costs	6	8
Total	**(335)**	**(378)**

11. Staff costs

The average number of employees, expressed as full-time equivalents (FTEs), came to 1,707 in 2015, versus 1,692 in 2014.

The table below provides a breakdown of staff costs in 2015 and 2014.

Millions

	2015	2014
	EUR	EUR
Wages and salaries	(138)	(134)
Social insurance contributions	(16)	(17)
Pension costs	(32)	(39)
Other staff costs	(18)	(21)
Total	**(204)**	**(211)**

The annual pension scheme costs of EUR 32 million for 2015 are included under 'Pension costs'. They equal total pension contributions paid (EUR 37 million) less employee-paid contributions (EUR 5 million).

The annual costs on account of the contribution to the health care insurance premiums of pensioners are included under 'Social insurance contributions'. The annual costs on account of other employee benefits are included under 'Wages and salaries' and 'Social insurance contributions'.

Remuneration

General

Under the Public and Semi-public Sector Executives Remuneration (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector - WNT), DNB is required to disclose, apart from the remuneration of Governing Board and Supervisory Board members under Part 9 of Book 2 of the Dutch Civil Code (BW2), the remuneration of other staff exceeding the maximum referred to in the Act. The remuneration ceiling under the WNT for the 2015 financial year is EUR 178,000, which is below the 2014 ceiling of EUR 230,474. A transitional regime under the WNT applies. Unless stated otherwise, all executives and officials mentioned worked in full-time employment throughout the year.

Governing Board

The annual salaries of the Governing Board members in 2015, as fixed by the Minister of Finance, included holiday allowance and an extra month's pay and do not include variable remuneration. The pension scheme for the members of the Governing Board is in accordance with the agreements made with the Minister of Finance in 2005, and has been aligned with the statutory provisions at 1 January 2015. Like other staff, the members of the Governing Board contribute to their pension premiums.

The table below specifies the salaries, employer's social insurance contributions, other compensation and employer's pension contributions per member of the Governing Board.

Disclosure under	WNT		BW2 + WNT		BW2 + WNT		BW2 + WNT		WNT	
	Total remuneration		Salary**		Employer's social insurance contri-butions and other compensation***		Employer's pension contributions		Taxable variable expense allowance	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Klaas Knot	421,145	442,062	378,646	327,156	18,067	18,087	24,432	96,819	-	-
Jan Sijbrand	406,151	419,140	347,596	301,699	26,153	23,837	24,432	89,333	7,970	4,271
Joanne Kellermann*	-	348,284	-	261,375	-	13,869	-	73,040	-	-
Frank Elderson	359,081	376,439	318,155	277,562	16,494	16,642	24,432	82,235	-	-
Job Swank	359,081	376,439	318,155	277,562	16,494	16,642	24,432	82,235	-	-
Total	**1,545,458**	**1,962,364**	**1,362,552**	**1,445,354**	**77,208**	**89,077**	**97,728**	**423,662**	**7,970**	**4,271**

* Resigned effective 1 November 2014.
** As of reporting year 2015, DNB states the actually remunerated amounts for the reporting year ('cash basis') for the salary component, because in this manner both the remuneration of the Governing Board members and the entries based on the WNT use the same salary concept. This increases consistency and transparency. As a result, the 2014 figures used here differ slightly from the same items in the 2014 financial statements.
*** Employer's contributions disclosed pursuant to Book 2 of the Dutch Civil Code. In each case, the maximum employer's contribution for 2015 of EUR 9,267 applies (2014: EUR 9,480). Other compensation items are disclosed pursuant to Book 2 of the Dutch Civil Code and the WNT.

The table below presents the mortgage loans extended to Governing Board members at staff terms.

	Principal outstanding 31 December 2015
	EUR
Frank Elderson	314,028
Klaas Knot	823,278
Job Swank	444,705
Total	**1,582,011**

Remuneration paid to the members of the Supervisory Board

Members appointed or reappointed to the Supervisory Board since 1 January 2013 are paid fees in line with the WNT, which stipulates maximum fees of 10% and 15% of EUR 178,000 for members and the Chair, respectively. Under the WNT's transitional regime, the remuneration previously approved by the shareholder is paid to members appointed or reappointed before 1 January 2013. The basic fee for a member of the Supervisory Board was EUR 25,780 on an annual basis (2014: EUR 25,626). The Chair of the Supervisory Board received EUR 32,225 (2014: EUR 31,887). Under the remuneration policy referred to above, members of the Supervisory Board who also sit on a committee received an additional fee of EUR 6,445 (2014: EUR 6,407). Compensation is in proportion to board or committee membership. Under the remuneration policy referred to above, fees are adjusted annually according to the index for consumer prices published by Statistics Netherlands. Total fees (excluding VAT) paid to the members of the Supervisory Board for the year 2015 amounted to EUR 194,704 (2014: EUR 273,735).

In 2015 and 2014, the members of the Supervisory Board were paid the following fees:

	2015	2014
	EUR	EUR
Wim Kuijken (Chair)[1,2]	31,688	38,439
Jaap van Manen (Vice-Chair)	17,800	32,033
Bert van Delden[2]	32,225	32,033
Annemieke Nijhof[3]	10,383	-
Kees Goudswaard	32,225	38,439
Feike Sijbesma	32,225	32,033
Margot Scheltema[4]	5,933	-
Hélène Vletter-van Dort[5]	-	24,025
Alexander Rinnooy Kan (Chair)[6]	18,798	44,700
Annemiek Fentener van Vlissingen (Vice-Chair)[6]	13,427	32,033
Total	**194,704**	**273,735**

These amounts are disclosed pursuant to Book 2 of the Dutch Civil Code and WNT.
1 Chair with effect from 1 June 2015, fees in line with WNT as of that date.
2 Is also a member of the Bank Council. This carries a fee of EUR 3,140 on an annual basis (2014: EUR 3,140), which is not included here.
3 With effect from 1 June 2015; also a member of the Bank Council (see 2).
4 With effect from 1 September 2015.
5 End of term: 1 October 2014.
6 End of term: 1 June 2015.

Positions fulfilled under employment contracts for which remuneration exceeds the WNT standard of EUR 178,000 (2014: EUR 230,474):

In compliance with the WNT, DNB also reports remuneration of officials other than executives that exceeds the WNT standard. In respect of these officials the WNT does not impose a ceiling, but prescribes disclosure. The remuneration of these officials exceeds the WNT standard largely as a result of DNB's package of employment conditions. The number of officials concerned increased sharply compared with 2014 as the WNT standard was reduced by 30 percentage point with effect from 1 January 2015. Specific explanations are included for the total remuneration of a number of officials.

	Total remuneration		Average number of hours a week		Compensation		Taxable fixed and variable expenses		Deferred remuneration[1]	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	EUR	EUR	HRS	HRS	EUR	EUR	EUR	EUR	EUR	EUR
Division Director[2]	309,226	277,742	38.5	38.5	282,697	216,509	2,400	2,400	24,129	58,833
Secretary-Director[2,4,5]	297,985	249,811	38.5	38.5	278,088	191,516	1,800	2,400	18,097	55,895
Division Director[5]	282,210	280,705	38.5	39	255,657	219,072	2,424	2,489	24,129	59,144
Division Director[5]	261,834	260,998	38.5	39	235,210	203,717	2,495	2,461	24,129	54,820
Division Director[5]	257,911	257,753	38.5	39	231,383	198,911	2,400	3,711	24,129	55,131
Division Director[5]	254,399	252,316	38.5	39	227,870	197,588	2,400	3,791	24,129	50,937
Division Director[5]	254,245	259,284	38.5	39	227,717	202,271	2,400	2,400	24,129	54,613
Division Director	246,898	230,640	38.5	39	220,329	179,444	2,441	2,531	24,129	48,665
Division Director	246,311	227,073	38.5	38.5	219,782	176,169	2,400	2,400	24,129	48,504
Division Director[5]	244,815	243,069	38.5	38.5	218,213	185,852	2,473	2,431	24,129	54,786
Division Director[5]	243,979	239,843	38.5	38.5	216,953	182,933	2,898	2,400	24,129	54,510
Division Director[5]	231,683	230,757	36	36	204,851	176,954	2,400	2,408	24,432	51,395
Division Director[2]	228,415	227,689	36	38	201,109	177,798	2,875	1,900	24,432	47,991
Division Director[5]	224,474	214,478	38.5	38.5	197,496	163,852	2,849	2,426	24,129	48,200
Division Director	199,541	185,695	36	36	172,641	141,861	2,468	1,900	24,432	41,934
Division Director	198,313	187,112	36	39.4	171,481	142,259	2,400	1,959	24,432	42,894
Head of Department	205,422	194,815	36	36	177,940	150,443	3,050	3,101	24,432	41,271
Head of Department	204,628	205,513	40	40	178,851	161,206	1,800	1,800	23,977	42,507
Head of Department[6]	203,333	232,617	40	40	177,097	187,912	2,290	1,800	23,947	42,905
Head of Department	202,767	203,401	40	40	177,021	158,868	1,800	1,800	23,947	42,733
Head of Department	202,518	210,138	38	40	176,443	166,019	1,885	1,800	24,189	42,319
Head of Department	201,358	200,273	38.5	38.5	175,332	157,763	1,898	1,800	24,129	40,710
Head of Department	198,225	197,601	39	39	172,337	154,144	1,800	1,800	24,088	41,656
Head of Department	198,083	200,955	40	40	172,336	157,112	1,800	1,800	23,947	42,043
Head of Department	195,300	194,182	38.5	38.5	169,366	151,291	1,805	1,836	24,129	41,055
Head of Department[2]	193,772	200,778	36	36	166,947	159,675	2,393	2,385	24,432	38,718
Head of Department	193,445	168,900	36	36	167,143	129,245	1,870	1,800	24,432	37,855
Head of Department	191,681	190,354	36	36	165,448	149,983	1,800	1,825	24,432	38,546
Head of Department	188,869	186,728	36	36	162,026	144,585	2,411	1,831	24,432	40,312
Head of Department	187,320	188,060	40	40	161,032	144,014	2,341	1,831	23,947	42,215
Head of Department[2]	186,834	185,559	36	36	160,596	145,386	1,806	1,800	24,432	38,373
Head of Department	185,806	187,647	40	40	160,059	143,593	1,800	1,839	23,947	42,215
Head of Department	184,301	195,652	36	36	158,036	151,892	1,833	1,800	24,432	41,960
Head of Department	182,743	182,422	36	36	156,511	142,766	1,800	1,800	24,432	37,856
Head of Department	182,535	182,209	40	40	156,011	142,105	2,092	1,800	24,432	38,304
Head of Department	180,988	181,459	36	36	154,725	141,113	1,831	1,800	24,432	38,546
Head of Department	180,907	179,332	36	36	154,675	139,228	1,800	1,800	24,432	38,304
Head of Department	180,684	170,455	40	40	154,926	130,101	1,793	1,800	23,964	38,554
Head of Department	180,487	205,691	36	36	154,044	165,518	2,011	1,800	24,432	38,373
Head of Department	180,271	200,414	36	36	154,039	160,310	1,800	1,800	24,432	38,304
Head of Department	179,450	178,766	36	36	153,218	136,075	1,800	1,800	24,432	40,891
Head of Department[2]	178,700	177,902	36	36	152,050	138,509	2,218	1,800	24,432	37,592
Head of Department[7]	175,587	177,985	36	36	162,471	138,226	900	1,800	12,216	37,959
Head of Department[4]	155,331	200,261	36	36	135,657	158,777	1,350	1,800	18,324	39,684
Information Manager	180,310	189,609	36	38	154,074	147,428	1,845	1,800	24,392	40,381
Head of Section[3]	180,056	131,058	36	36	154,350	100,045	1,200	1,200	24,507	29,813
Expert[2]	213,469	185,285	36	36	187,237	141,434	1,800	1,800	24,432	42,051
Expert	195,543	204,787	38.5	38.5	169,614	161,536	1,800	1,800	24,129	41,451
Expert[2]	195,140	198,619	38.5	38.5	169,195	157,264	1,816	1,800	24,129	39,555
Expert[3]	185,426	139,538	36	36	159,852	108,924	1,291	1,200	24,283	29,414
Expert[2,3]	184,885	138,895	36	36	159,253	106,544	1,200	1,200	24,432	31,151
Expert	182,245	190,189	38.5	38.5	156,649	151,320	1,468	1,200	24,129	37,669
Expert[2]	181,136	186,644	40	40	155,359	148,226	1,830	1,800	23,947	36,618
Expert[3]	179,611	138,245	36	36	153,840	107,027	1,200	1,200	24,571	30,018
Expert[8]	174,268	227,374	40	40	157,104	188,894	1,200	1,800	15,964	36,680

1 Employer's pension contributions for maximum pensionable earnings of EUR 100,000. The loss of pension accrual for the excess over EUR 100,000 has been partly compensated for by means of a substituting remuneration component.
2 Including conversion of holiday hours.
3 Including conversion of lease car entitlement.
4 Resigned effective 1 October 2015.
5 The comparative figures for 2014 were restated downward from those reported in 2014 because staff contributions for lease cars had incorrectly not been deducted.
6 This official's remuneration was erroneously not reported in the 2014 financial statements.
7 Resigned effective 1 July 2015.
8 Resigned effective 1 September 2015.

12. Other administrative expenses

The table below specifies 'Other administrative expenses'.

Millions

	2015	2014
	EUR	EUR
Temporary staff and outsourcing	(39)	(66)
Travel and accommodation expenses	(5)	(4)
Accommodation	(7)	(10)
Office equipment, software and office expenses	(24)	(28)
General expenses	(11)	(12)
Total	**(86)**	**(120)**

The decrease from 2014 in temporary staff and outsourcing is the result of the costs incurred in 2014 relating to the comprehensive assessment held as part of banking supervision.

'General expenses' include the fees paid to the external auditor. The table below provides a breakdown of the fees into categories.

	2015	2014
	EUR	EUR
Audit of the financial statements	396,595	320,798
Other audit services	57,778	80,102
Tax consultancy services	-	-
Other non-audit services	599	2,408
Total	**454,972**	**403,308**

Costs of DNB's duties as an independent public body (ZBO)

In its capacity as an independent public body, DNB exercises prudential supervision over financial institutions. In accordance with supervision legislation, a more detailed account is given in a separate report.

The actual costs as accounted for in that ZBO report were as follows:

Millions

	Actual 2015	Budget 2015	Actual 2014
	EUR	EUR	EUR
Banks*	62	70	53
Pension funds	27	31	27
Insurers**	41	39	41
Other institutions and Sanctions Act	14	12	15
Total costs of regular supervision	144	152	136
SSM, comprehensive assessment of banks	-	-	46
Total costs of supervision	**144**	**152**	**182**
Resolution	4	5	-
Total costs of duties as a ZBO	**148**	**157**	**182**

* Banks including other credit institutions.
** Including the costs for health care insurers totalling EUR 4.6 million (budgeted: EUR 5.0 million).

For detailed notes, the reader is referred to DNB's (Dutch-language) ZBO report on its public duties in 2015.

Amsterdam, 23 March 2016
Governing Board of De Nederlandsche Bank N.V.

Klaas Knot, *President*
Jan Sijbrand
Frank Elderson
Job Swank

Amsterdam, 23 March 2016
Adopted by the Supervisory Board of
De Nederlandsche Bank N.V.

Wim Kuijken, *Chair*
Jaap van Manen, *Vice-Chair*
Bert van Delden, *Secretary*
Kees Goudswaard
Annemieke Nijhof
Margot Scheltema
Feike Sijbesma

4. Other information pursuant to Section 392(1) of Book 2 of the Dutch Civil Code

Independent auditor's report

To the Governing Board, the Supervisory Board and the General Meeting of Shareholders of De Nederlandsche Bank N.V.

Report on the financial statements

We have audited the accompanying financial statements of De Nederlandsche Bank N.V., Amsterdam, for the year ended 31 December 2015 as set out in this Annual Report on pages 137 to 185. The financial statements comprise the balance sheet as at 31 December 2015, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Governing Board's responsibility

The Governing Board of De Nederlandsche Bank N.V. is responsible for the preparation of the financial statements in accordance with the accounting principles as set out in Guideline ECB/2010/20, supplemented by the applicable provisions of Part 9 of Book 2 of the Dutch Civil Code pursuant to Section 17 of the Bank Act 1998, and the Policy Rules on the implementation of the Public and Semi-Public Sector Executives Remuneration (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector – WNT), and for the preparation of the Annual Report as set out on pages 5 to 147 in accordance with Section 391 of Part 9 of Book 2 of the Dutch Civil Code. The Governing Board is also responsible for such internal control as it considers necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing and the Policy Rules on application of the WNT, including the WNT Audit Protocol. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements as well as for compliance with WNT requirements, 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the applied WNT requirements regarding financial regularity and the reasonableness of accounting estimates made by the Governing Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the financial statements

In our opinion, the 2015 financial statements of De Nederlandsche Bank N.V. have been compiled, in all material respects, in accordance with the accounting principles as set out in Guideline ECB/2010/20, supplemented by the applicable provisions of Part 9 of Book 2 of the Dutch Civil Code pursuant to Section 17 of the Bank Act 1998.

Report on other legal and regulatory requirements

Pursuant to Section 393(5) under e and f of Book 2 of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Annual Report as set out on pages 5 to 135, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required under Section 392(1) under b to h of Book 2 of the Dutch Civil Code has been annexed on page 201. In addition, we report that the Annual Report as set out on pages 5 to 135, to the extent we can assess, is consistent with the financial statements as required by Section 391(4) of Book 2 of the Dutch Civil Code.

Amsterdam, 23 March 2016

Deloitte Accountants B.V.

Carlo Renne

Provisions governing the appropriation of profit

These provisions are set out in Article 22(2) of the Articles of Association of De Nederlandsche Bank N.V. and read as follows:
The profit, as shown in the adopted annual accounts, is at the disposal of the general meeting of shareholders.

Appropriation of profit

With due observance of the above provisions of the Articles of Association, the appropriation of profit is set out below.

Millions

	2015	2014
	EUR	EUR
Addition to the general reserve	9	48
Distribution to the State	174	903
Result for the year	**183**	**951**

Events after the balance sheet date

No events after the balance sheet date had a material impact on the 2015 financial data.

CSR accountability

CSR accountability

CSR reporting

More than in previous years, the way in which DNB implements CSR through its core tasks is discussed in detail in the Introduction by the President and the chapters of the Annual Report. As a result, there is no longer a separate CSR report. Specific information on CSR has been laid down in this Annex. In this Annual Report, CSR accountability is based on the aspects that were material to DNB in 2015 (see Table 1, Overview of CSR objectives and results). This report has been prepared according to the reporting guidelines of the Global Reporting Initiative (GRI G4 Core option). The GRI guidelines contain indicators for relevant CSR topics (see the GRI G4 table on page 203). DNB reports on two indicators contained in the GRI G4 Financial Services Sector Supplement that are relevant to the organisation. The other indicators are either not material or not applicable, as DNB has no customers and no for-profit financial products.
As explained in Chapter 5, during 2016 DNB will decide, based on the new materiality analysis and the new CSR agenda, on the way in which the CSR reporting on 2016 is to be compiled to ensure that progress related to CSR is reported according to the GRI principles.

Results and sphere of influence

Table 1 provides an overview of all CSR objectives and results. All operations-related topics, including DNB's investments, come within the internal sphere of influence. The external sphere of influence consists of all core task-related topics, as explained in the previous chapters on supervision, resolution, monetary policy and the payments system.

Table 1 Overview of CSR objectives and results

CSR topic/ Content owner	Objective for 2015	Activities and results achieved in 2015	Objective for 2016	Chapter/ Section of AR
Core tasks				
Restoration of trust in DNB	Further improvement in DNB's reputation score among financial citizens, closer to the 70 mark. In 2015, an additional emphasis was placed on communication about supervision.	Average reputation score 2015: 66.2/2014: 65.3). DNB has provided the press, and therefore the public, with greater insight into, and background information on, the screening process for managing directors and supervisory directors, the recovery plans of pension funds, the manipulation of benchmarks by banks, the current status of compliance with integrity regulations by the financial sector, our vision on the banking structure and our experiences of European banking supervision. Sustainability and transparency were the central themes of a number of speeches given by Governing Board members (www.dnb.nl).	Further improvement in DNB's reputation score among financial citizens, closer to the 70 mark. The strengthening of communications about supervision will be continued in 2016. DNB will engage in more dialogue with the public in 2016. The reputation score reveals that DNB is scoring higher in the area of transparency than in 2015.	Introduction by the President
Supervision of governance, sustainability of business models (including ESG risks), behaviour & culture, including remuneration policy at supervised institutions*	Focus attention on integrity; continue giving attention to governance and business models; engage in dialogue with the sector regarding greater sustainability.	In 2015, DNB carried out research into the potential risk that climate change and climate policy for the financial sector. In 2015 DNB carried out an initial survey of sustainable investment at pension funds. Dialogue with all sectors takes the form of seminars, round table discussions and panel meetings on supervisory policy. DNB is asking the sectors to provide input on matters including the selection of themes within supervision. To provide more insight into the results and effects of supervision, DNB publishes its State of Supervision. In this document DNB accounts for its supervision in 2015 and links this to the DNB Supervisory Strategy 2014-2018 and the Supervision Outlook (supervisory priorities for 2016). DNB has started publishing the financial data of pension funds every quarter to enable members of the public to form their own opinion on the position of pension funds.	Establishment of platform for sustainable financing, facilitated and chaired by DNB. This platform will meet for the first time in the first quarter of 2016. The findings regarding sustainable investment at pension funds will be shared with the sector and other stakeholders. Alert to specific risks associated with sustainability. Examination of potential legal bases for allowing CSR to be embedded more deeply in DNB's supervisory task. With regard to banks, this matter will also be studied within the SSM. DNB will encourage pension funds to clarify the consequences for different age groups/ groups of members when submitting requests for risk profile changes. DNB will publish best practices related to sustainable investment and encourage institutions to follow them.	Section 5.4.5

CSR topic/ Content owner	Objective for 2015	Activities and results achieved in 2015	Objective for 2016	Chapter/ Section of AR
		DNB organised an international conference on the supervision of behaviour and culture at financial institutions and within the SSM it has argued in favour of this form of supervision.	DNB will publish key financial data on banks on its website. DNB will support solutions that address the problems surrounding unit-linked policies and interest rate derivatives.	
Economic policy and research*	Conduct in-depth study with long-term vision of development of energy and food prices. In-depth analysis of the theme of (strengthening of) capacity for growth in the interests of sustainable prosperity. Position paper to promote social dialogue on pensions, with a view to achieving a socially and financially tenable pension system.	Study of the role energy plays in the economy, the economic impact of the necessary transition to a sustainable energy supply and the shaping of energy and climate policy. The findings will be published early in 2016. In early 2015 a position paper was published that identified five features of a sustainable pension system. DNB organised a conference on inequality and the redistribution of wealth between generations. A survey was also carried out into the effect of unconventional monetary policy on income distribution.	Vision on sharing economy and implications for investment, labour, public interests and sustainable economic development. Gain support for a reform agenda for the Dutch economy, focusing in particular on achieving shorter household balance sheets and strengthening fiscal policy.	Section 5.4.3
Accessible, available and safe payment system*	Contribute to the Dutch National Forum on the Payment System (MOB) vision document on availability and utility of cash. Evaluate switching service. Lobby for better European legislation and regulations on accessibility. Develop statutory availability standards. Study availability of payment systems.	In 2015 a study into the availability of ATMs was carried out by the Dutch National Forum on the Payment System, which is chaired by DNB. With the support of DNB, the Eye Association Netherlands (Oogvereniging) launched an initiative to enable the standardisation of payment terminals in stores at a European level. To this end, the 'Payable' platform was established. This platform communicates the message to EU institutions. An accessible animated film was developed in collaboration with the Payments Association. The message of this film is that payment systems are complex and all parties are working together to maintain a very high level of integrity.	DNB will make further efforts in the area of sustainability in the payments system: a. By reducing the amount of banknotes that are incorrectly rejected, ensuring that banknotes last longer, aiming to increase the proportion of sustainable cotton in banknotes to 50% in 2016 and 100% in 2019, reducing the amount of cash in transit, the exchanging of coins with, and selling coins to, other euro area countries, and encouraging innovation. b. By taking account in advance, through the National Forum on the Payment System, of the interests of vulnerable groups such as old people and the blind, and by	Section 5.4.4

CSR topic/ Content owner	Objective for 2015	Activities and results achieved in 2015	Objective for 2016	Chapter/ Section of AR
			ensuring innovations and new legislation go down well in society. c. By developing a real DNBcoin prototype based on blockchain technology. d. By releasing granular transaction data received from financial market infrastructures (e.g. derivatives transactions received from trade repositories) and the development of early warning indicators.	
More efficient and environmentally friendly circulation of banknotes*	Participate in ECB test involving recirculation of €20 banknotes. Perform pilot in 2015.	As a try-out in the Eurosystem, DNB has recirculated (and not destroyed) old-style €20 banknotes that are suitable for re-use since the new banknote was introduced.	Simultaneous issue of different series of banknotes; encouraging innovation. DNB also intends to recycle money containers.	5.4.4
Investment policy*	Monitor CSR implementation at DNB equity managers.	The external equity managers to which equity investments have been transferred have signed the Principles for Responsible Investment (PRI) and apply the UN Global Compact principles.	DNB will be committed to impact investing that targets ESG matters. DNB will inform stakeholders about risks related to its balance sheet and investment returns.	5.7.2
Knowledge transfer				
Financial education*	Realise design/fitting of new visitor centre, opening in September. The aim of the new visitor centre is to bring about quantitative (sharp increase in the number of visitors from 18,000 to more than 40,000) and qualitative (new exhibits that are more interactive) improvements. Participation in Money Week 2015.	The revamped visitor centre was opened in September 2015. In total, more than 19,000 people have visited the centre. The estimate for the expected number of visitors has been adjusted from 40,000 to 30,000, based on the actual visitor numbers up to March 2015. During Money Week 2015, DNB employees gave more than 100 guest lessons at approximately 50 schools. DNB participates in the Money Wise (Wijzer in geldzaken) platform, which is an initiative of the Ministry of Finance. DNB is one of the four sponsors of this initiative. DNB also supports Child and Youth Finance International (CYFI), a global organisation that helps children in more than 100 countries to develop financial awareness and financial skills. A great deal of educational material was also requested by, and sent to, primary schools and secondary schools.	The aim of the new visitor centre is to bring about a sharp increase in the number of visitors. To this end, a public campaign will be launched under the slogan 'Money talks' ('Geld vertelt'). Participate in Money Week 2016. Step up collaboration with Child Youth Finance International by becoming a member of the Management Board of CYFI.	5.5.5

CSR topic/ Content owner	Objective for 2015	Activities and results achieved in 2015	Objective for 2016	Chapter/ Section of AR
Technical assistance	Provide training and exchange knowledge to reinforce financial and institutional development of fellow central banks and supervisory authorities, notably from the 12 constituent countries that the Netherlands represents jointly with Belgium at the IMF and the World Bank. Ensure that constituent countries are satisfied with DNB's support to ensure they remain members of the Dutch constituency group.	At DNB, 5.2 FTEs work in technical assistance. A total of 29 seminars, including one on financial inclusion, were organised. In addition, a start was made on a project led by the central bank of Romania, aimed at increasing the supervisory capacity of the central bank of Moldavia.	Provide training and exchange knowledge to reinforce financial and institutional development of fellow central banks and supervisory authorities, notably from the 15 constituent countries that the Netherlands represents jointly with Belgium at the IMF and the World Bank. Ensure that constituent countries are satisfied with DNB's support to ensure they remain members of the Dutch constituency group.	5.5.5
Sustainable business practices				
Reduction in CO_2 emissions, environmental protection and energy consumption*	Achieve climate neutrality by purchasing green electricity and offset remaining CO_2 emissions by purchasing carbon credits.	Thanks to the purchase of green electricity and the offsetting of the remaining CO_2 emissions, DNB was climate-neutral in 2015. DNB uses an ISO14001-certified environmental management system for Facility Management, Cash Operations and Security and Transport. As a result, environmental considerations have become an integral part of activities. Monitoring takes place via audits, in the environmental annual report and in management reviews.	DNB intends to remain climate-neutral in 2016. DNB intends to start using clean, silent, electric ships to dispose of its non-recyclable waste.	5.5.3
Green mobility	Implement the compensation scheme to encourage personnel to give up lease cars.	Use has been made of the compensation scheme.	DNB pursues a policy designed to limit the number of flights made by staff.	
Green ICT	Start at least two projects with environmental impact reduction targets.	To ensure the efficient use of the data centre's capacity, equipment is being shared to an increasing extent. In addition, the equipment that facilitates this was replaced in 2015. The new models are 18% more energy-efficient. The iBabs tool was rolled out at DNB to facilitate paperless meetings.	Start at least two projects with environmental impact reduction targets.	5.5.3

CSR topic/ Content owner	Objective for 2015	Activities and results achieved in 2015	Objective for 2016	Chapter/ Section of AR
Sustainable procurement*	RVO environmental criteria for the relevant product groups are included in European tenders above EUR 50,000. Where possible, additional, non-compulsory CSR measures are also included.	In 2015, 39 European procurement projects and multiple private tenders (valued at more than EUR 50,000) were carried out. RVO criteria existed for three product groups, and these criteria were applied. In addition, extra sustainability measures were included in five other tenders. The social return was considered in one tender.	RVO environmental criteria for the relevant product groups will be included in European tenders above EUR 50,000. DNB will check whether social criteria, including social return criteria, can be applied more frequently wherever possible.	5.5.4
Purchase of sustainable cotton for banknotes*	Increase percentage of sustainable cotton to 40%.	In 2015, the proportion of sustainable cotton used by DNB in its own banknote production that was put out to tender was 40%. Bonus made available for small-scale farmer organisations in developing countries that participate in sustainable textile chains.	The objective for 2016 is that at least 50% of cotton used will come from sustainable sources.	5.4.4
Social policy				
Integrity*	Further reinforce culture of professional responsibility, embedding of integrity in business practices, and monitoring and enforcement of integrity regulations: - from values to work: reinforce link between DNB's values and day-to-day activities; - focus on desirable behaviour; - current integrity risks are managed or accepted; - good understanding of development of integrity risks.	Activities in the context of the current main integrity risks: Structuring the process for monitoring the secure sending of e-mails. Constant efforts are also made to raise awareness among employees of the need to deal with information carefully. Attention was devoted (by means of a 10 point plan) to the further reinforcement of measures designed to prevent fraud.	Deepening of risk analysis and monitoring. Alert to main integrity risks, including the upcoming changes in relevant legislation and regulations. Improvement programmes in the area of information security and fraud risk management will be continued. Effective and efficient continuation of the operational compliance approach.	5.5.2
Staff diversity*	Continuous and targeted attention to recruiting a sufficient number of female candidates for all positions, particularly at head of department and division director levels.	At the time the Talent to the Top Charter was signed, DNB's goal was that women would hold at least 32% of management positions. This percentage fell from 33.3% to 29.7% in 2015.	Implement Talent to the Top Charter.	5.5.1

CSR topic/ Content owner	Objective for 2015	Activities and results achieved in 2015	Objective for 2016	Chapter/ Section of AR
Employee development and deployment*	Expand lifelong learning credit system (or another standardisation system) to central bank part of organisation. Management adequately equipped to implement basic principles regarding staff numbers. DNB Academy provides desired course offering.	It was established that introducing a lifelong learning credit system for the central bank part of the organisation would not be worthwhile. A group curriculum (which includes training courses for the entire primary process) was launched in 2015. In addition to providing a programme for prospective management, a range of masterclasses and external training courses are also offered for the current management, in connection with which a lifelong learning system has been developed.	Increase long-term employability of employees by means of, among other things, improved information on opportunities and updating the policy on demotion after consulting with the Employees Council and unions.	5.5.1
Social commitment	Continue preventative activities aimed at psycho-social workload management. Develop personal budget system together with unions and Employees Council and implement recommendations together with divisions. Introduce periodic medical check-ups. Further reduce physical demands.	In 2015 the Risk Inventory and Evaluation (RI&E) was carried out and an action plan was prepared. Overall, the number and size of the risks is low and is managed. The Personal Choice Budget (PCB) system was fleshed out and implemented. The rate of absenteeism due to illness was 2.63%.	Update and implement the strategic security plan and in-house emergency response plan. Keep rate of absenteeism due to illness at low level.	5.5.1
Social commitment				
Sponsoring and donations (including art)	Budget for donations in monetary form or in kind (time) to cultural, social and care causes: EUR 250,000. Budget for contributions in monetary form or in kind to activities arising out of core tasks: EUR 624,000.	All requests are assessed centrally in accordance with the policy approved by the Governing Board. The budgets have been put to good use.	Budget donations in monetary form or in kind (time) to cultural, social and care causes: EUR 250,000. Budget for contributions in monetary form or kind to activities arising out of core tasks: EUR 624,000.	5.5.5
Building together	Employees take part in projects helping people in need and projects focused on knowledge transfer.	In 2015, about 250 DNB personnel took part in a total of 15 projects. In addition, some 80 DNB staff take part in JINC projects each year. JINC aims to reduce school drop-out rates. Old laptops are donated to Close the Gap when they are replaced.	Employees take part in projects helping people in need and projects focused on knowledge transfer.	5.5.5

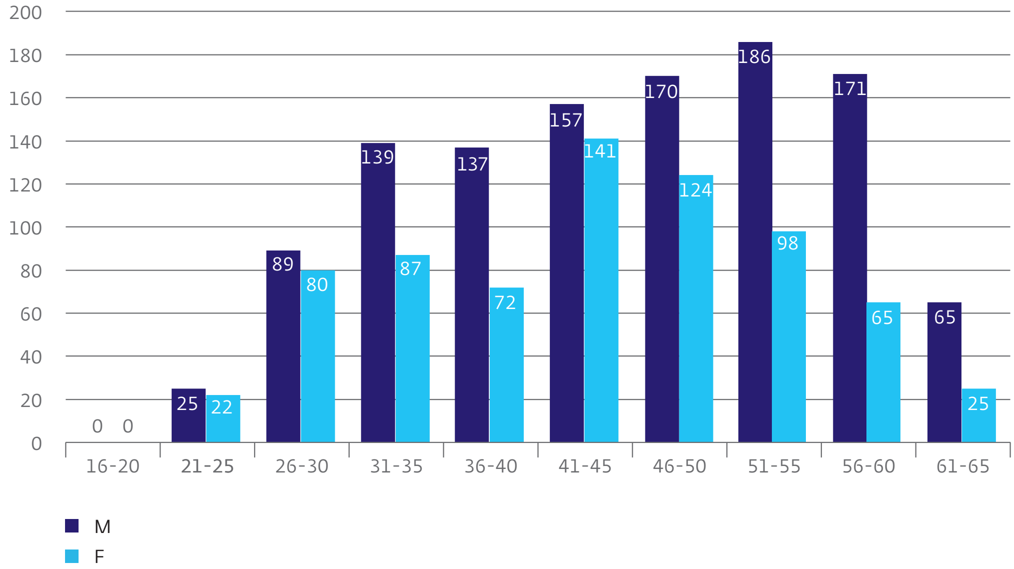
* Material aspect

Table 2 Stakeholder dialogue with DNB

Stakeholders	Form of dialogue	Outcomes, issues	Follow-up by DNB
Employees	DNB carried out a high performance organisation (HPO) scan in 2015.	There is still room for improvement: the score for 'continuous improvement' can be increased further.	Specific opportunities for improvement have been identified from the bottom up. These include workshops to support management.
Public	Reputation measurement among financial citizens (quarterly).	Average reputation score for 2015: 66.2 (2014: 65.3).	Reputation measurement will be continued.
Providers and users of payment systems	National Forum on the Payment System (Maatschappelijk Overleg Betalingsverkeer - MOB) (twice a year) and working groups.	Study of accessibility of ATMs. Vision on cash accessibility. Study of faster processing of retail payments. Use of payment details, and privacy.	Coverage provided by installed base of ATMs is reviewed once a year. Guarantee free choice between payment in cash and debit card payment. Banks are building a new payment infrastructure that should be ready in 2019. DNB, through its participation in the ESCB, is also working to make instant payments a reality.
Supervised financial institutions	Annual stakeholder survey (questionnaire sent to financial institutions and in-depth interviews held with management boards of financial institutions and other stakeholders such as umbrella organisations, the AFM and ministries).	Communication could be made more appealing. Suitability screening is an area that requires attention.	State of Supervision. Supervision Outlook. Reinforce screening process. Survey to be continued.
	Dialogue with all sectors by means of seminars, round table and panel meetings on supervisory policy.	Announcement and explanation of new regulations. Sharing of best practices. Input regarding matters such as selection of research themes.	Interpretation and application of regulations. Supervisory approach organised effectively and efficiently.
Industry associations of supervised financial institutions	Executive consultation with separate industry associations (four times a year). Panel meetings on budget and accountability (twice a year).	Announcement and explanation of new regulations. Acceptable supervision costs.	Interpretation and application of regulations. Supervisory approach organised effectively and efficiently.
Bank Council (sounding board for DNB's Governing Board on which the Supervisory Board, social partners, financial sector and independent experts are represented)	The Bank Council meets four times a year. DNB's Governing Board and the Treasurer-General at the Ministry of Finance (or his deputy), while not members, participate in the discussions on a routine basis.	The Governing Board reports on general economic and financial developments and discusses the policies pursued by DNB; members of the Bank Council may also place items on the agenda.	Input for policy discussions.
All	Round tables for CSR dialogue	Materiality analysis	Prioritisation of CSR efforts

Chart 1 Key HR statistics (excluding recruitment of temporary staff)

Number of male and female employees in various age groups at year-end 2015



Staff profile by years of service in %

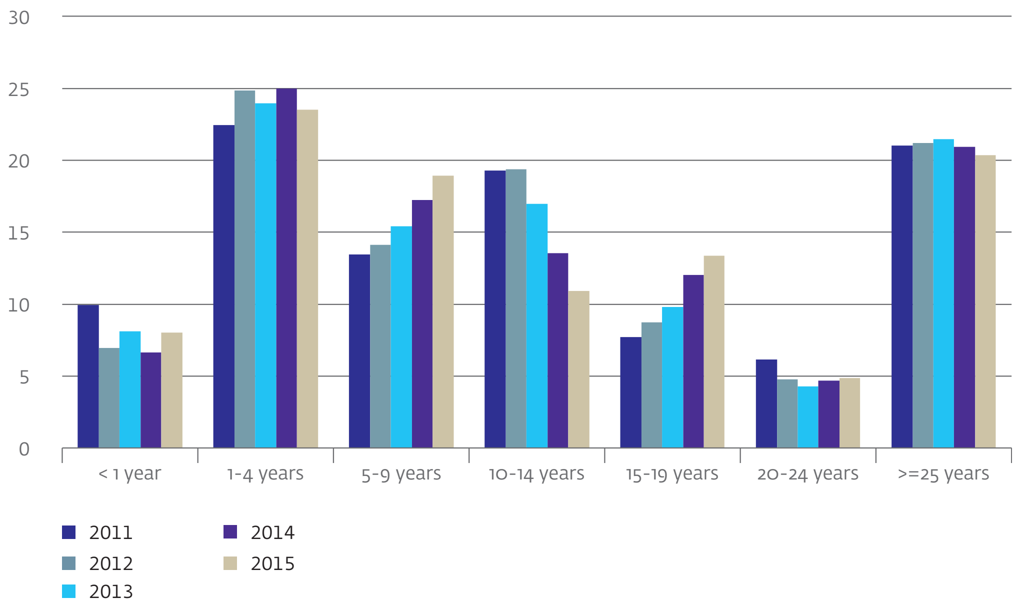


Table 3 Key data at year-end

	2015	2014
Number of employees	1853	1812
Number of FTEs (average during 2015)	1707	1692
DNB % women	38.5%	38.0%
Workforce % women	39.1%	38.4%
Governing Board % women	0.0%	0.0%
Division Directors % women	25.0%	31.3%
Heads of department % women	29.3%	30.4%
Heads of section % women	39.1%	42.3%
Training costs actual (EUR)	6,499,941	6,453,040
Training costs budget (EUR)	6,722,781	6,566,715

Table 4 M/F inflow and outflow

Total	F	M	%F	%M
Inflow (152)	56	96	36.8%	63.2%
Outflow (111)	30	81	27.0%	73.0%

Table 5 Reasons for leaving in 2015

Own request	58
Termination of contract	11
End of temporary employment contract	15
Retirement and early retirement	15
Reorganisation	10
Incapacity for work	0
Death	2
Total	**111**

Table 6 G4-EN15 Measured environmental data and explanation of policy and activities

CO_2 emissions (in tonnes)

Measured data	2015[1]	2014[2]
Energy	2,335	2,364
Purchased green electricity[3]	0	0
Natural gas for heating[4]	2,287	2,156
Diesel for energy supply[5]	48	208
Commuting	2,186	2,168
Public transport[6]	799	786
Passenger vehicles[7]	1,387	1,382
Business travel	1,997	1,766
Passenger vehicles[8]	376	396
Air travel[9]	1,585	1,370
International train travel[10]	36	0
Goods and passenger transport	39	54
Passenger vehicles for passenger transport[11]	28	28
Lorries for goods transport[12]	11	26
Total CO_2[13]	**6,559**	**6,353**
Offset through purchase of carbon credits	6,559	6,385
Total CO_2 emissions	**0**	**0**
Number of FTEs	1,707	1,692
CO_2 per FTE	**0**	**0**

1 The 2015 reporting period runs from 1 October 2014 to 30 September 2015, inclusive.
2 The 2014 reporting period runs from 1 October 2013 to 30 September 2014, inclusive.
3 With effect from reporting period 2014, all electricity purchased by DNB is green electricity. In reporting period 2015, the emission conversion factors used by www.co2emissiefactoren.nl for green electricity generated from wind was changed from 0.015 kg CO2/kWh in 2014 to 0.000 kg CO2/kWh in 2015. The figure for reporting period 2014 has been adjusted to reflect this.
4 During reporting period 2015, the emission conversion factor used by www.co2emissiefactoren.nl for natural gas was changed from 1.83 kg CO2/m3 to 1.884 kg CO2/m3. The figure for reporting period 2014 has been adjusted to reflect this.
5 During reporting period 2015, the emission conversion factor used by www.co2emissiefactoren.nl for diesel was changed from 3.13 kg CO2/litre to 3.23 kg CO2/litre. The figure for reporting period 2014 has been adjusted to reflect this.
6 During reporting period 2015, the emission conversion factor used by www.co2emissiefactoren.nl for commuting by public transport was changed from 0.065 kg CO2/passenger km to 0.061 kg CO2/passenger km. The figure for reporting period 2014 has been adjusted to reflect this.
7 During reporting period 2015, the emission conversion factor used by www.co2emissiefactoren.nl for commuting by passenger vehicles was changed from 0.21 kg CO2/passenger km to 0.22 kg CO2/passenger km. The figure for reporting period 2014 has been adjusted to reflect this.
8 During reporting period 2014, the emission conversion factors used by www.co2emissiefactoren.nl for business travel by passenger vehicles in kg CO2/passenger km, in kg CO2/litre petrol and kg CO2/litre diesel were change from 0.21, 2.78 and 3.14, respectively, to 0.22, 2.74 and 3.23, respectively. The figures for reporting period 2014 have been adjusted to reflect this.
9 The emission conversion factors used by www.co2emissiefactoren.nl for air travel for business purposes in kg CO2/passenger km was changed from 0.270 to 0.297 for regional flights (< 700 km) and from 0.134 to 0.147 for global flights (> 2500 km). The figures for reporting period 2014 have been adjusted to reflect this.
10 DNB has opted to include CO2 emissions resulting from international train travel in its carbon footprint with effect from reporting period 2015.
11 During reporting period 2015, the emission conversion factors used by www.co2emissiefactoren.nl for passenger vehicles for passenger transport in kg CO2/litre diesel and in kg CO2/litre petrol were changed from 3.13 and 2.78, respectively, to 3.23 and 2.74, respectively. The figure for reporting period 2014 has been adjusted to reflect this.
12 The emission conversion factor used by www.co2emissiefactoren.nl for lorries for goods transport in litres of diesel was changed from 3.13 kg CO2/litre to 3.23 kg CO2/litre. The figure for reporting period 2014 has been adjusted to reflect this.
13 The total amount of CO2 emissions for reporting period 2014 has been adjusted on the basis of the aforementioned changes to CO2 conversion factors.

Table 7 Data on energy consumption

Measured data	Unit	2015[14]	2014[15]	CO_2 parameter[16]
Energy				
Purchased green electricity	kWh	13,456,477	14,144,604	0 kg CO_2/kWh
Natural gas	m^3	1,214,142	1,144,403	1.884 kg CO_2/m^3 gas
Diesel for energy supply	litres	14,984	64,511	3.23 kg CO_2/litre diesel
Commuting				
Public transport	km	13,103,326	12,893,305	0.061 kg CO_2/km
Passenger vehicles	km	6,304,774	6,279,820	0.22 kg CO_2/km
Business travel				
Passenger vehicles (business mileage, private vehicles)	km	560,269	500,082	0.210 kg CO_2/km
Passenger vehicles (lease cars, petrol)	litres of petrol	47,136	66,236	2.74 kg CO_2/litre
Passenger vehicles (lease cars, diesel)	litres of diesel	38,230	32,277	3.23 kg CO_2/litre
Passenger vehicles (lease cars, electric)[17]	kWh	1,067	971	0.526 kg CO_2/kWh
Air travel, regional (< 700 km)	km	1,484,521	1,199,774	0.297 kg CO_2/ passenger km
Air travel, European (< 2,500 km)	km	1,741,696	1,737,662	0.201 kg CO_2/ passenger km
Air travel, global (> 2,500 km)	km	5,413,929	4,532,468	0.147 kg CO_2/ passenger km
International train travel[18]	km	921,030	N/A	0.039 kg CO_2/ passenger km
Goods and passenger transport[19]				
Passenger vehicles for passenger transport	litres of petrol	6,010	10,150	2.78 kg CO_2/litre
Passenger vehicles for passenger transport	litres of diesel	3,534	N/A	3.14 kg CO_2/litre
Lorries for goods transport	litres of diesel	3,495	8,197	3.14 kg CO_2/litre

14 The 2015 reporting period runs from 1 October 2014 to 30 September 2015, inclusive.
15 The 2014 reporting period runs from 1 October 2013 to 30 September 2014, inclusive.
16 Source: www.co2emissiefactoren.nl
17 DNB has opted to allocate the electricity consumed by electric/hybrid lease cars to business travel with effect from reporting period 2015. In 2014 such consumption was still allocated to electricity consumed under energy consumed.
18 DNB has opted to include CO2 emissions resulting from international train travel in its carbon footprint with effect from reporting period 2015.
19 With effect from reporting period 2015, DNB is able to provide a breakdown of fuel consumed by passenger vehicles for passenger transport into diesel consumed and petrol consumed. These figures are therefore presented separately for reporting period 2015.

Table 8 GRI G4 table

Category	GRI principle	Topic	Place in annual report and explanation or omission (if applicable)
Strategy and analysis	G4-1	Strategic goals	Introduction by the President; see Chapter 5 for information on performance with respect to targets and on targets for 2016.
Organisational profile	G4-3	Name of the organisation	De Nederlandsche Bank N.V.
	G4-4	Primary products and services	www.dnb.nl under 'About DNB', 'Duties'
	G4-5	Location of the organisation's headquarters	www.dnb.nl under 'About DNB', 'Contact and directions'
	G4-6	Countries where the organisation operates	www.dnb.nl under 'About DNB', 'Organisation'
	G4-7	Legal form	Public limited liability company (naamloze vennootschap), the Dutch State is sole shareholder
	G4-8	Markets served and types of customers	www.dnb.nl under 'About DNB', 'Duties'
	G4-9	Scale of the organisation	Annex, Chapter 5, table of key data
	G4-10	Total number of employees	Annex, Chapter 5, table of key HR statistics and table of key data
	G4-11	Total employees covered by collective bargaining agreements	All employees are covered by the Collective Labour Agreement
	G4-12	Organisation's supply chain	AR Section 5.1 Figure 5.2
	G4-13	Significant changes	As at 31 December 2015, there had been no significant changes in the organisation's ownership. DNB was designated as national resolution authority with effect from 1 January 2015.
	G4-14	Precautionary approach	AR 5.6
	G4-15	Charters and principles	AR 5.4.4
	G4-16	Memberships	AR 5.4.4
Identified material aspects and boundaries	G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	See Financial statements
	G4-18	Process for defining the report content	AR 5.3 CSR results
	G4-19	Material aspects	AR 5.3 Stakeholder dialogue (this report is based on aspects that were material in 2015). Annex, Chapter 5, Table 1 Overview of CSR objectives and results, including the material aspects and Table 9 GRI G4.
	G4-20	Material aspects within the organisation	AR 5.3 CSR reporting
	G4-21	Material aspects outside the organisation	AR 5.3 CSR reporting; embedding ESG in supervisory tasks is not under the operational control of DNB. The scope of reporting will be taken into consideration when determining the CSR reporting policy for 2016.
	G4-22	Restatements of information provided in previous reports	AR 5.3 Paragraphs 3 and 4

Category	GRI principle	Topic	Place in annual report and explanation or omission (if applicable)
	G4-23	Significant changes from previous reporting periods	AR 5.3 Paragraphs 3 and 4, indicators from the public sector supplement are no longer applied.
Stakeholder engagement	G4-24	Stakeholders	AR 5.3 Stakeholder dialogue and General Annex, Chapter 5, Table Stakeholder Dialogue with DNB
	G4-25	Selection of stakeholders	AR 5.3 Stakeholder dialogue 2016. Stakeholders for DNB are those persons and parties with which it collaborates or that attach value to the work, role and influence of DNB as an independent public body with social tasks. The selection for the stakeholder dialogue took place by analysing who is influenced positively or negatively by DNB's core tasks.
	G4-26	Approach to stakeholder engagement	AR 5.3 Stakeholder dialogue 2016
	G4-27	Topics raised by stakeholders	AR 5.3 Stakeholder dialogue 2016
Report profile	G4-28	Reporting period	1 January 2015 – 31 December 2015
	G4-29	Date of most recent previous report	March 2015
	G4-30	Reporting cycle	Calendar year
	G4-31	Contact point	mvo@dnb.nl
	G4-32	'In accordance' option	Core
	G4-33	External assurance	External assurance: moderate degree of assurance
Governance	G4-34	CSR governance structure	AR 5.3 Paragraphs 3 and 4
Ethics and integrity	G4-56	Compliance and integrity programme	AR 5.5.2
	G4-DMA	Why aspect is material	For each aspect (See AR 5.3 Figure 3), materiality is determined according to the stakeholder analysis and internal assessment. The report states for each aspect (references are included in General Annex, Chapter 5, Table 1) how it is controlled and what its impact is. Management evaluates the approach periodically. The approach was not changed in 2015.
Financial Services Sector Supplement	G4-FS14	Accessibility of payment terminals	AR 5.4.4 Paragraph 1
		Financial inclusion	AR 5.4.4 Paragraph 3
	G4 Product and service labelling	Financial education	AR 5.5.5
	G4-FS11	Assets subject to screening	AR 5.7.2 Paragraphs 2
	Product portfolio	Investment policy of pension funds	AR 5.4.5 Priorities in supervision, Paragraph 2
Specific notes	G4-EN15	Direct greenhouse gas emissions	AR 5.5.3 Paragraph 4 and General Annex, Chapter 5, Tables 7 and 8
	G4-EN16	Energy indirect greenhouse gas emissions	AR 5.5.3 and General Annex, Chapter 5, Tables 7 and 8
	G4-EN30	Transport of banknotes	AR 5.4.4 Ecology and Payments
	G4-EN32	Sustainable procurement	AR 5.5.4
	G4-LA6	Occupational health and safety	AR 5.5.1 Occupational health and safety. Based on principles of equality, DNB makes no distinction by gender, ethnic or cultural background, beliefs or sexual orientation.
	G4-LA9	Training and education	AR 5.5,2 DNB Academy. Based on principles of equality, DNB makes no distinction by gender, ethnic or cultural background, beliefs or sexual orientation.
	G4-LA10	Training and education	AR 5.5.1 DNB Academy and Strategic succession planning
	G4-HR3	Integrity incidents	AR 5.5.2

Scope

The information in the CSR reporting relates to the reporting year 2015 (1 January to 31 December), with the exception of the environmental data, for which the reporting period is the fourth quarter of 2014 to the third quarter of 2015, inclusive. All DNB locations are wholly owned. Supplier information falls outside the scope of this annual report. The calculation of CO_2 emissions covers energy consumption (gas, electricity and diesel for heating) at all DNB locations. CO_2 emissions associated with commuting, business travel and goods transport were also reported on an organisation-wide basis. All information is based on calculations (not estimates), unless stated otherwise.

Transparency Benchmark

Every year, DNB takes part in the Ministry of Economic Affairs' Transparency Benchmark on CSR reporting. The Ministry of Economic Affairs defines the benchmark criteria and arranges the annual benchmarking in order to learn about the transparency of CSR reporting by the Netherlands' largest enterprises. In 2015, DNB was ranked 22nd out of 461 participants (in 2014 DNB was ranked 57th).

Verification

To ensure an objective and independent assessment, DNB asked Deloitte Accountants B.V. to review its CSR reporting in the 2015 annual report. The purpose of the exercise was to obtain a moderate degree of assurance that the CSR report and the accompanying notes and disclosures are free from material misstatements and have been prepared in accordance with GRI G4 guidelines. Deloitte Accountants B.V. has issued an assurance report stating that nothing has come to their notice that would cause them to conclude that the information in the CSR report, in all material aspects, is not a reliable and accurate reflection of DNB's policy. The assurance report has been included on page 206.

Assurance report

Assurance report with a limited degree of assurance, issued by the independent auditor, on the CSR information contained in the Annual Report

To the Governing Board, the Supervisory Board and the General Meeting of Shareholders of De Nederlandsche Bank N.V. and other stakeholders.

We have reviewed the CSR information presented in the 2015 Annual Report of De Nederlandsche Bank N.V. in Amsterdam, examining Sections 5.3, 5.4.1 (paragraph 4), 5.4.4, 5.4.5 (Box 5.4 and paragraph 7), 5.5.1, 5.5.2, 5.5.3, 5.5.4, 5.5.5, 5.7.2 and the CSR Annex to the 2015 Annual Report. The CSR information reflects the policy, operational management, events and performance of De Nederlandsche Bank N.V. relating to corporate social responsibility during the reporting year 2015.

Limitations in our scope

The CSR information contains forward-looking information such as ambitions, strategies, plans, expectations and projections. This information is inherently uncertain as the actual results in the future may differ from the prospects. We do not provide any assurance on the assumptions or the feasibility of forward-looking information in the CSR information.

Governing Board's responsibility

The Governing Board of De Nederlandsche Bank N.V. is responsible for preparing the CSR information in accordance with the G4 Sustainability Reporting Guidelines (In Accordance – Core) of the Global Reporting Initiative (GRI), including the identification of stakeholders and the determination of material issues. Section 5.3 sets out the decisions made by the Governing Board with respect to the scope of the CSR information and the reporting policy. The Governing Board is also responsible for maintaining such internal control as it considers necessary to enable the preparation of CSR information that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSR information based on our review. We conducted our review in accordance with Dutch law, including Dutch Standard 3810N governing assurance engagements relating to corporate social responsibility reports. This entails that we comply with ethical requirements and plan and perform the review to obtain limited assurance about whether the CSR information is free from material misstatement.

A review is focused on obtaining limited assurance. The activities performed to obtain limited assurance are aimed at establishing the plausibility of information and are less thorough than those performed to obtain reasonable assurance. The activities performed in this context mainly involved acquiring information from the entity's staff and performing quantitative analyses on the CSR information. Consequently, the degree of assurance obtained in the context of a review is less than that obtained in the context of an audit.

We believe that the evidence we have acquired is sufficient and appropriate to provide a basis for our conclusion.

Activities

Our main activities included the following:

- Performing an environmental analysis and gaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the organisation.
- Evaluating the acceptability of the reporting policy and its consistent application, including an evaluation of the stakeholder dialogue outcomes and of the reasonableness of the Governing Board's projections.
- Evaluating whether the report is in accordance with the GRI G4 Sustainability Reporting Guidelines (In Accordance – Core).
- Evaluating the set-up and implementation of the systems and processes for gathering and processing CSR information.
- Evaluating internal and external documentation supplied in addition to interviews to establish whether the CSR information is adequately substantiated.

Conclusion

Based on our activities, and with due observance of the limitations described in the section 'Limitations in our scope', we state that nothing has come to our notice that would cause us to conclude that the CSR information, in all material respects, is not a reliable and adequate reflection of the policy, operational management, events and performance of De Nederlandsche Bank N.V. relating to corporate social responsibility during the reporting year 2015 in accordance with the GRI G4 Sustainability Reporting Guidelines (In Accordance – Core).

Amsterdam, 23 March 2016

Deloitte Accountants B.V.

Ronald Spijker