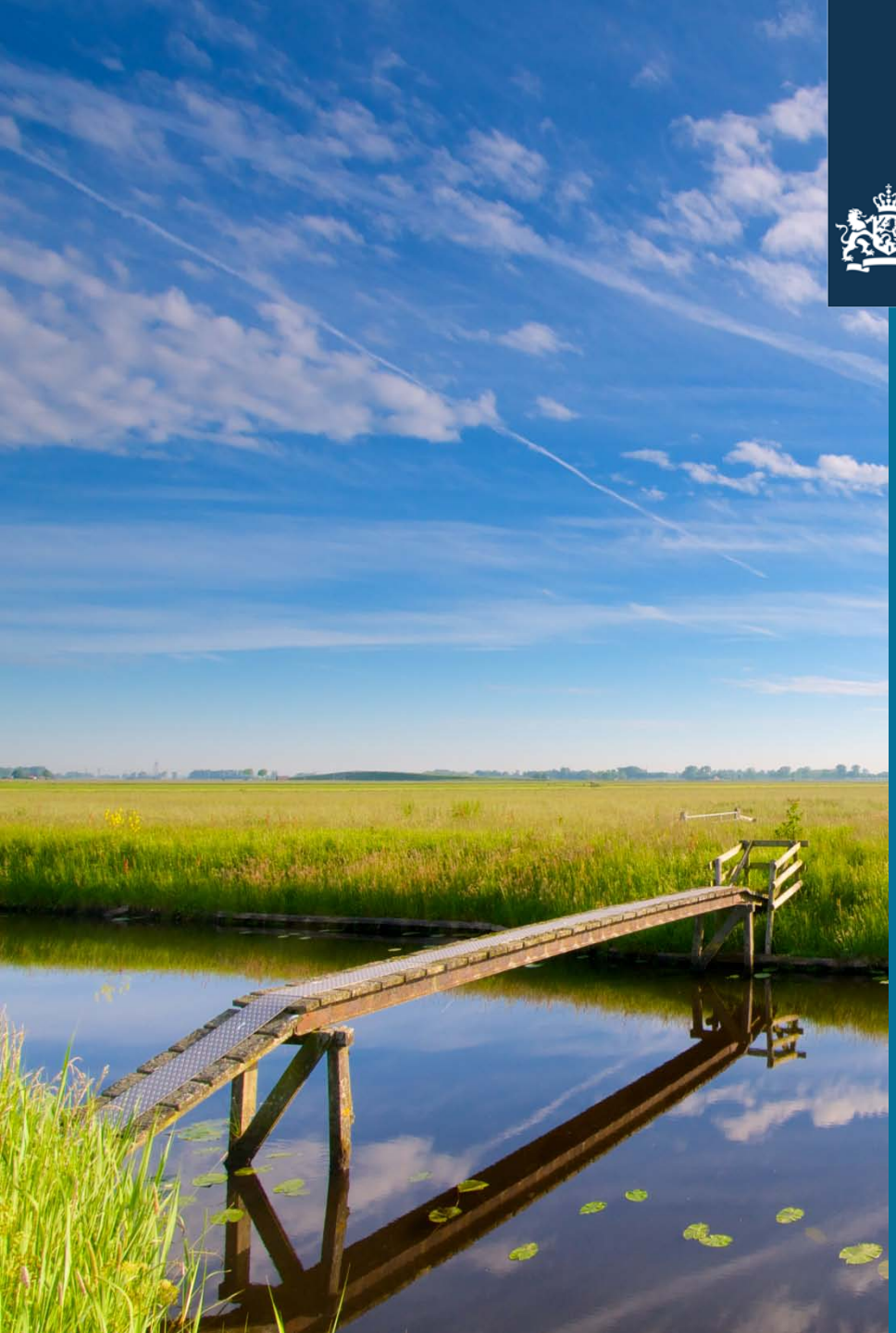

Ministry of Finance

Dutch State Treasury Agency

10-year DDA
Investor presentation

Last update: 7 March 2016

Content outline

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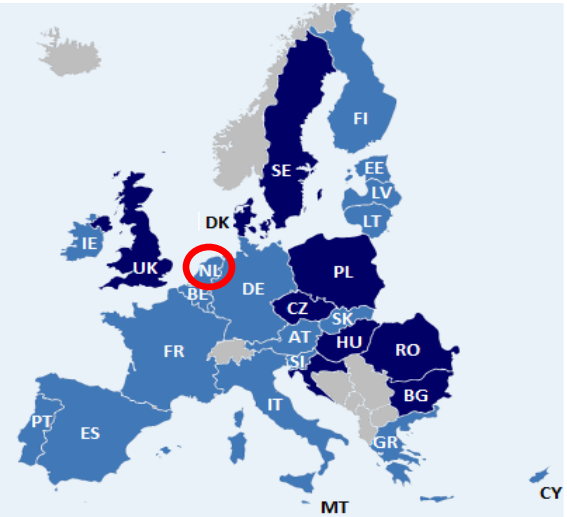
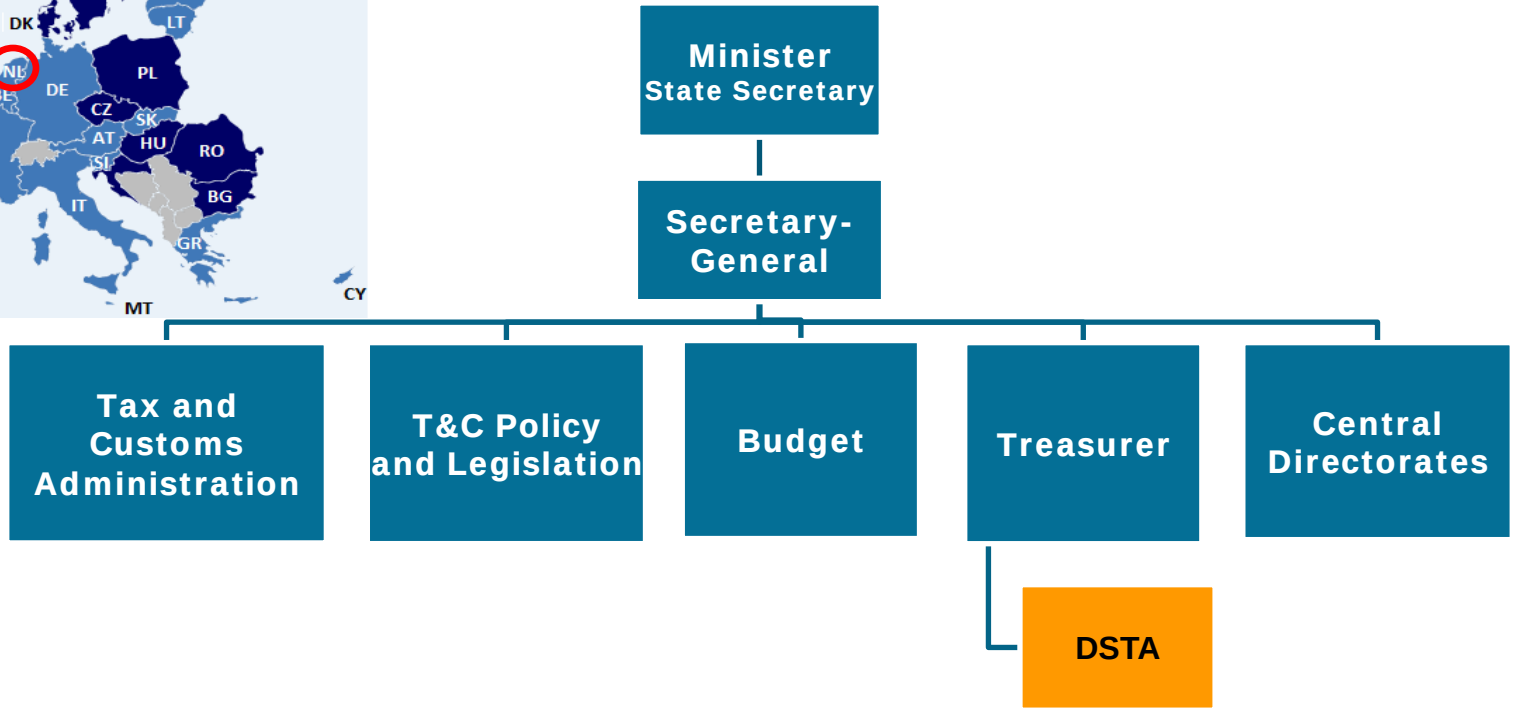
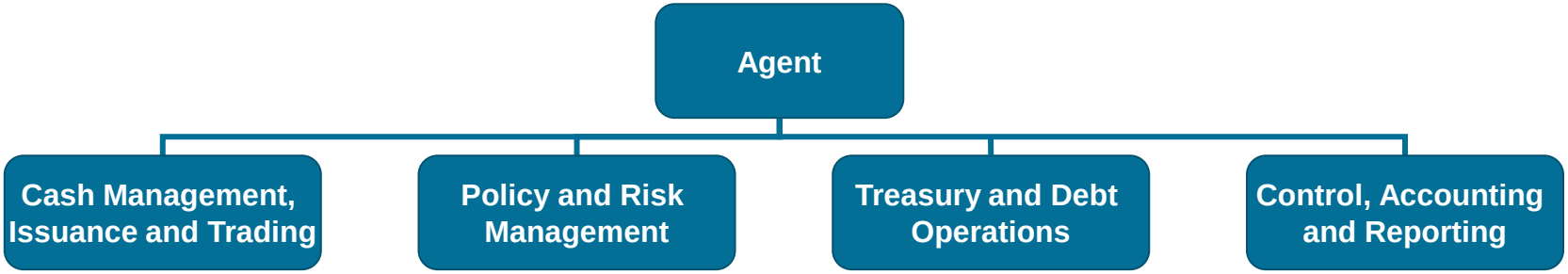
The Dutch Ministry of Finance





Dutch State Treasury Agency



- Founded in 1841 in Amsterdam
- Moved to The Hague in 2009
- Part of Ministry of Finance
- Autonomous decisions within a mandate that is granted by the minister of Finance
- Main objective: to manage the State's debt efficiently and effectively and to meet the State's funding requirement by borrowing and lending money

Details new 10-year benchmark bond

DDA date:	Tuesday 22 March 2016
Maturity date:	15 July 2026
Reference bond:	DBR 0.50% 15 February 2026
Target volume:	€ 4 - € 6 bn
Settlement date:	Thursday 24 March
Coupon:	To be announced on Friday 18 March
Initial spread guidance:	To be announced on Monday 21 March
Country ratings:	Aaa/ AAA/ AAA

Time schedule 10-year DSL

- Book opens at 10:00 CET on 22 March
- Final spread guidance will be announced no later than 15:00 CET on 22 March
- Book closes at latest 17:00 CET on 22 March
- Allocation communicated a.s.a.p. after closing of the book, no later than 9:00 CET on 23 March
- Pricing at least 30 minutues after allocation and no later than 12:00 CET on 23 March; preferably on the auction day itself

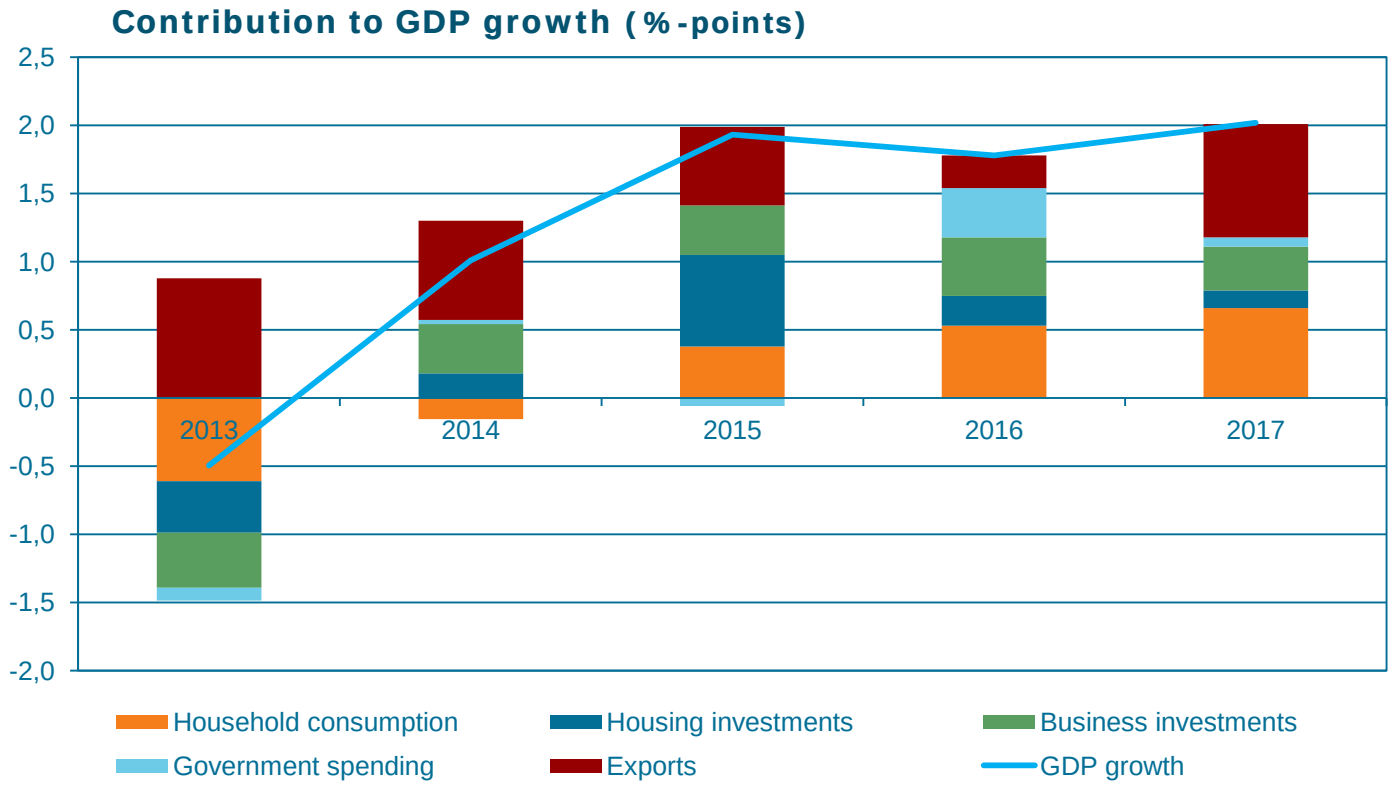
The economy and the budget

Projections: strong economic performance

Key economic figures 2015-2017 (% change y-o-y)	2015	2016	2017
GDP	1.9	1.8	2.0
Household consumption	1.6	1.6	2.0
Capital formation (including inventories)	7.2	6.0	4.2
Government consumption	-0.3	2.0	0.2
Exports	4.2	3.6	4.1
Imports	4.9	5.0	4.5
Unemployment (% of labour force)	6.9	6.5	6.3
Labour productivity	1.3	0.8	1.4
Inflation (HICP)	0.2	0.3	1.0

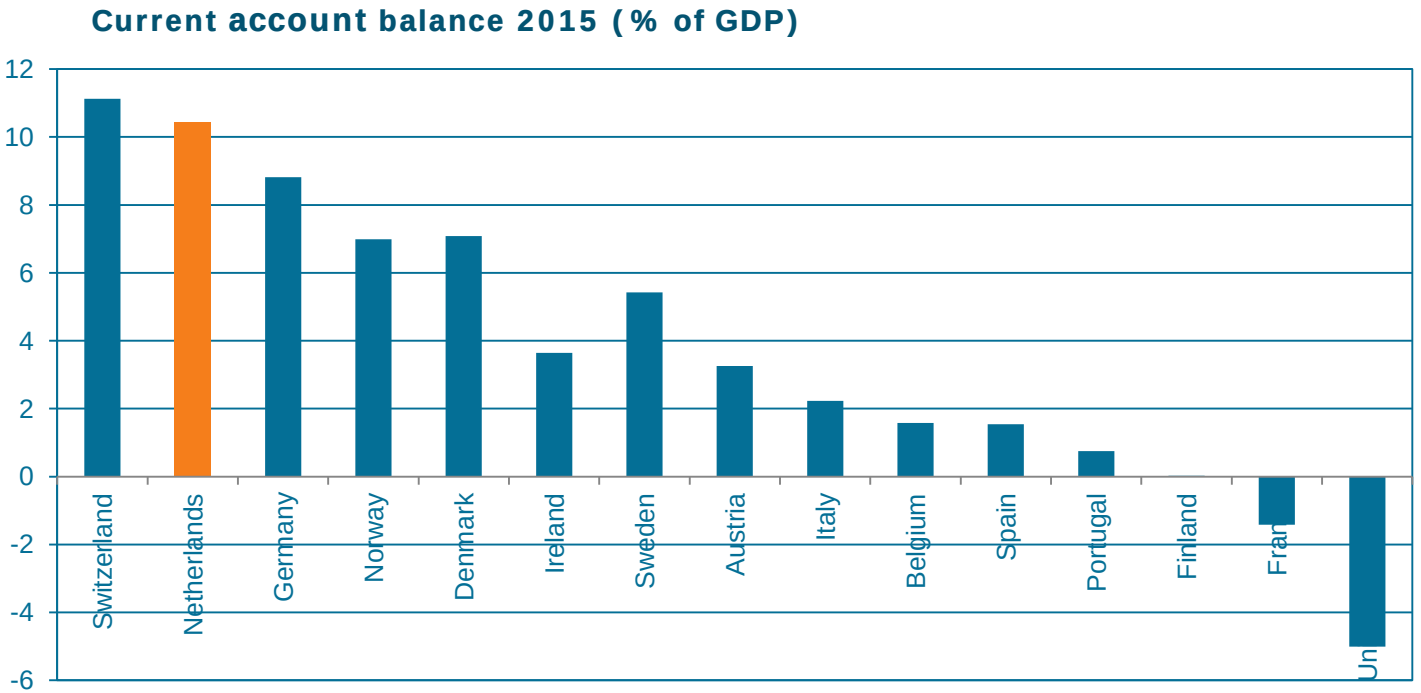
Source: CPB, Netherlands Bureau for Economic Policy Analysis, 7 March 2016.
Detailed Macro-economic Outlook available on 21 March on CPB website.
http://www.cpb.nl/en/short-term-forecasts

Domestic demand is driving growth



Source: CPB, Netherlands Bureau for Economic Policy Analysis, 7 March 2016

Strong current account surplus



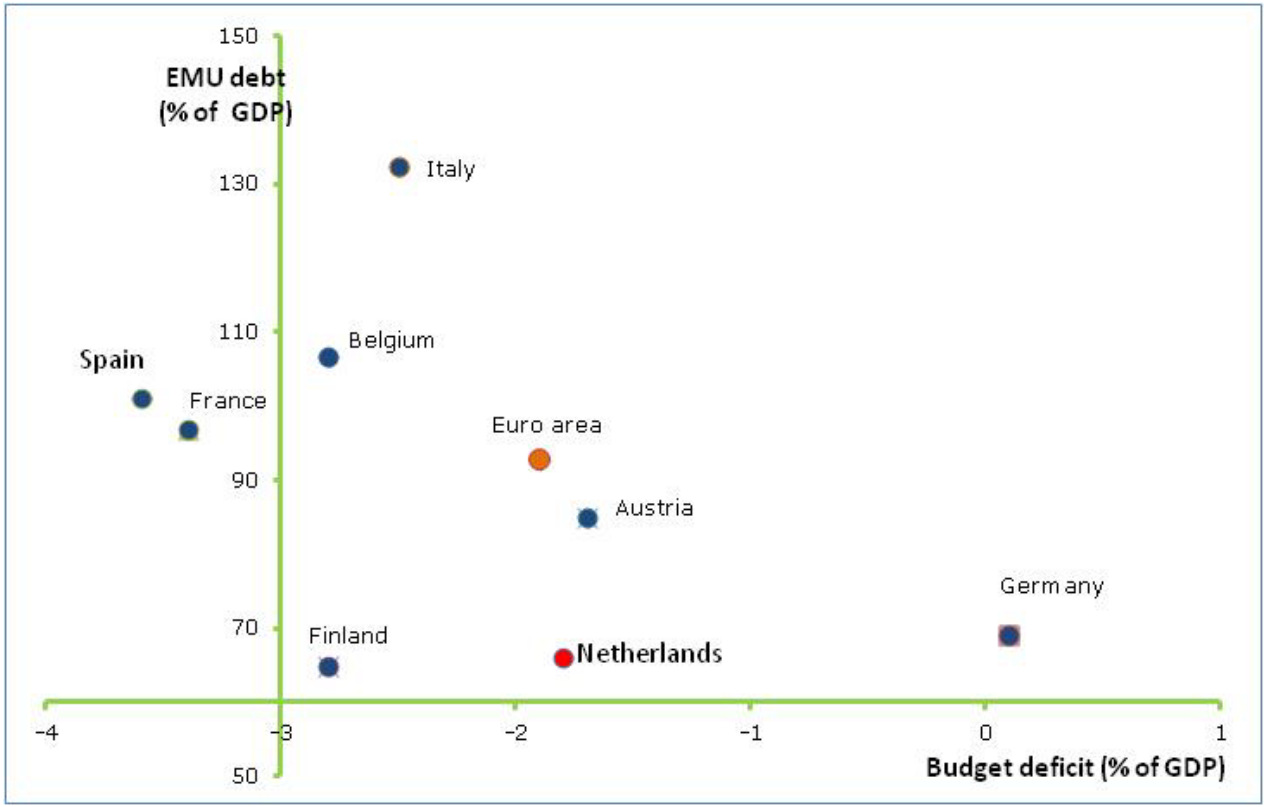
Source: European Commission, Winter Forecast 2016 (AMECO database)
http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm

Government finances

Key budgetary figures (% GDP)	2012	2013	2014	2015	2016	2017
EMU-balance	-3.9	-2.4	-2.4	-1.9	-1.7	-1.2
EMU-debt	66.4	67.9	68.2	66.3	65.4	64.1

Source: Statistics Netherlands (up tot 2014) and CPB, Netherlands Bureau for Economic Policy Analysis (2016, 2017)
Next update by ministry of Finance at the end of May 2016

Government finances compared (2016)

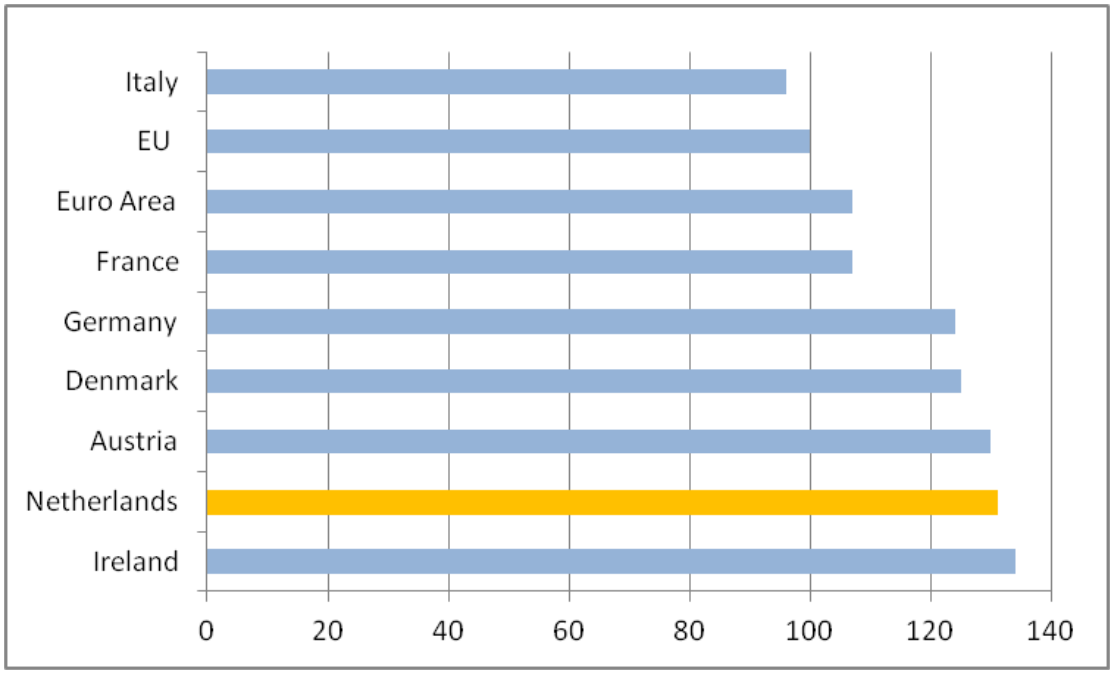


Source: European Commission Winter Forecast, February 2016

Fundamentally
strong

Among the richest countries in Europe

Real GDP per capita (PPS, 2014, index EU28=100)

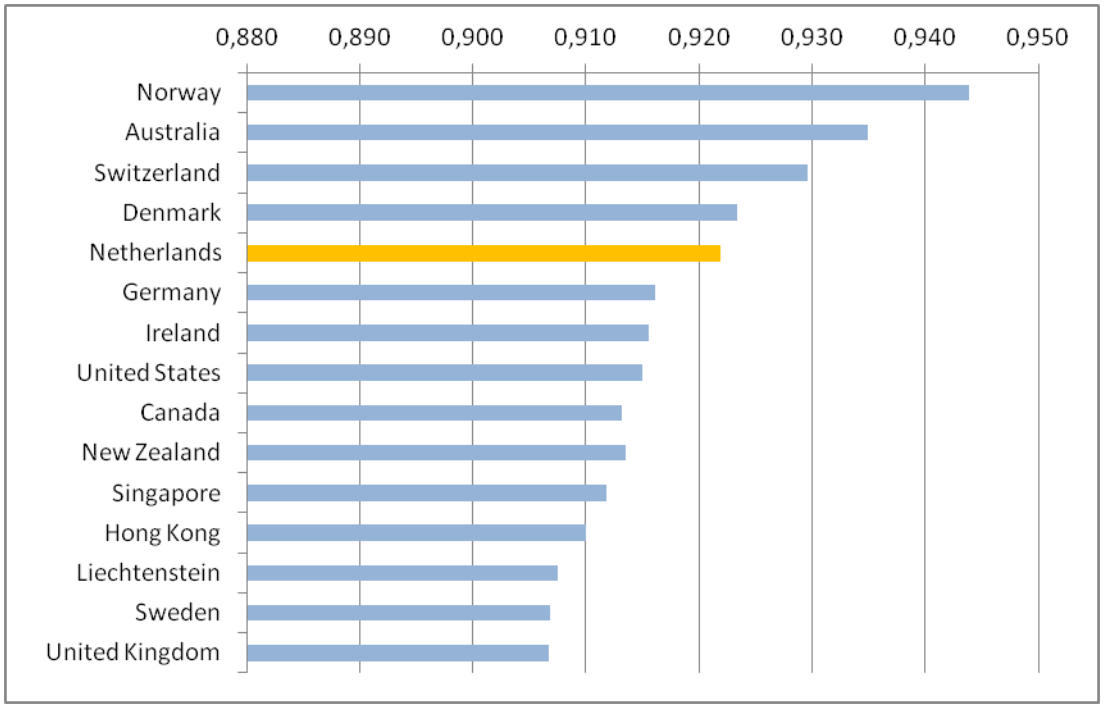


Source: Eurostat

http://ec.europa.eu/eurostat/web/purchasing-power-parities/data/main-tables

Among the most developed countries worldwide

Top 15 countries on the Human Development Index (2015)



Source: United Nations Human Development Index

Among the most competitive countries worldwide

Top 12 countries on the WEF Competiveness Index

1	Switzerland
2	Singapore
3	United States
4	Germany
5	Netherlands
6	Japan
7	Hong Kong
8	Finland
9	Sweden
10	United Kingdom
11	Norway
12	Denmark

Source: World Economic Forum , 15 February 2016

The debt position

Debt Outstanding

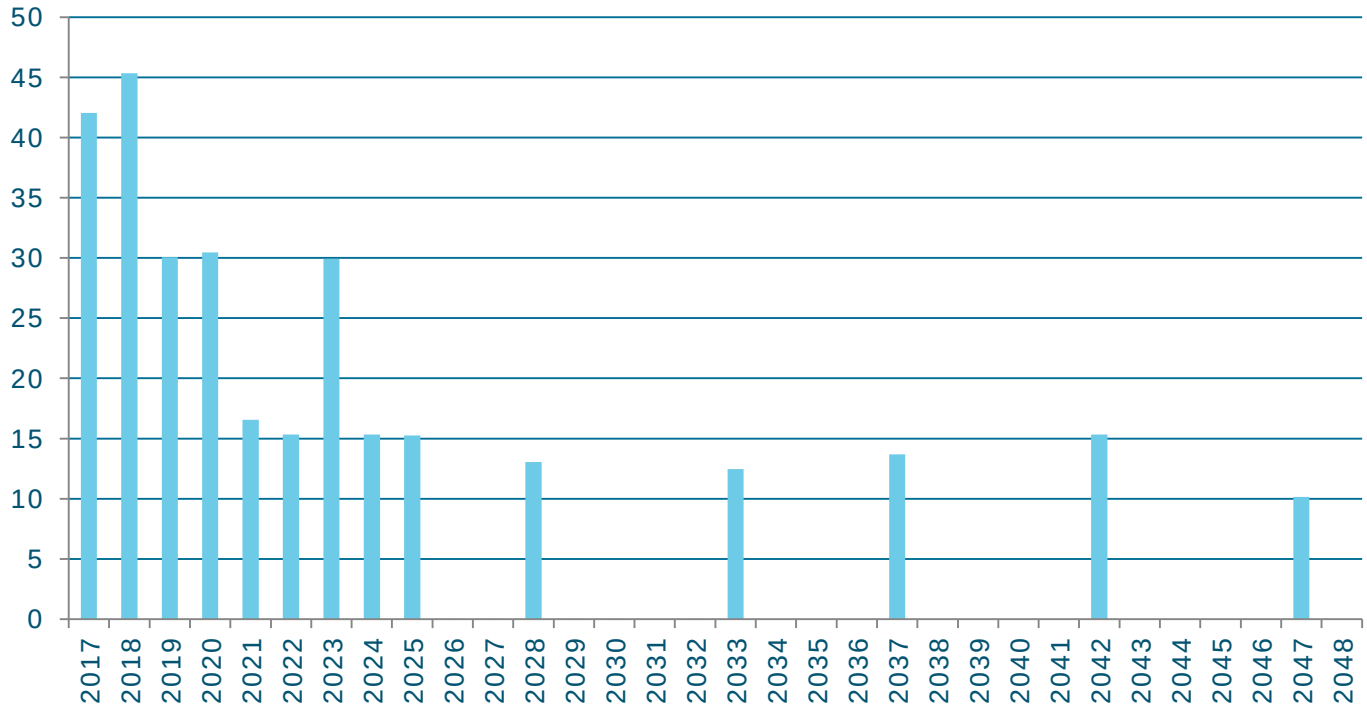
Key figures at the end of February 2016 (in mn of euros)

DSL (T-bonds)	323,769
DSL in foreign currency	2,512
DTC (T-bills)	13,680
ECP in foreign currency	
Private loans	3,573
Private loans in foreign currency	695
Cash	119
Total debt outstanding #	**344,348**

 # Excluding cash collateral received (€20.6 bn)

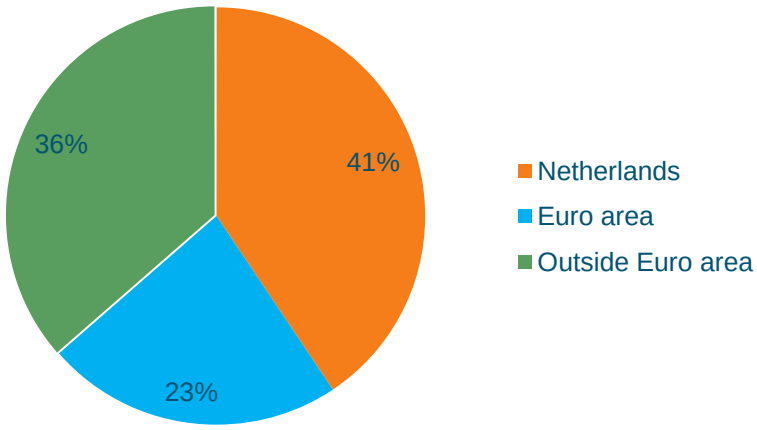
Long-term debt profile

Redemptions long-term debt position (end February 2016, € bn)

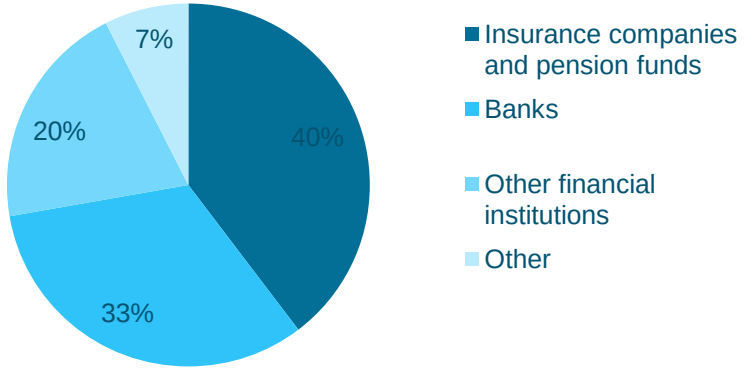


Diversified holdings of debt

Holdings of Dutch government debt by region (sept 2014)



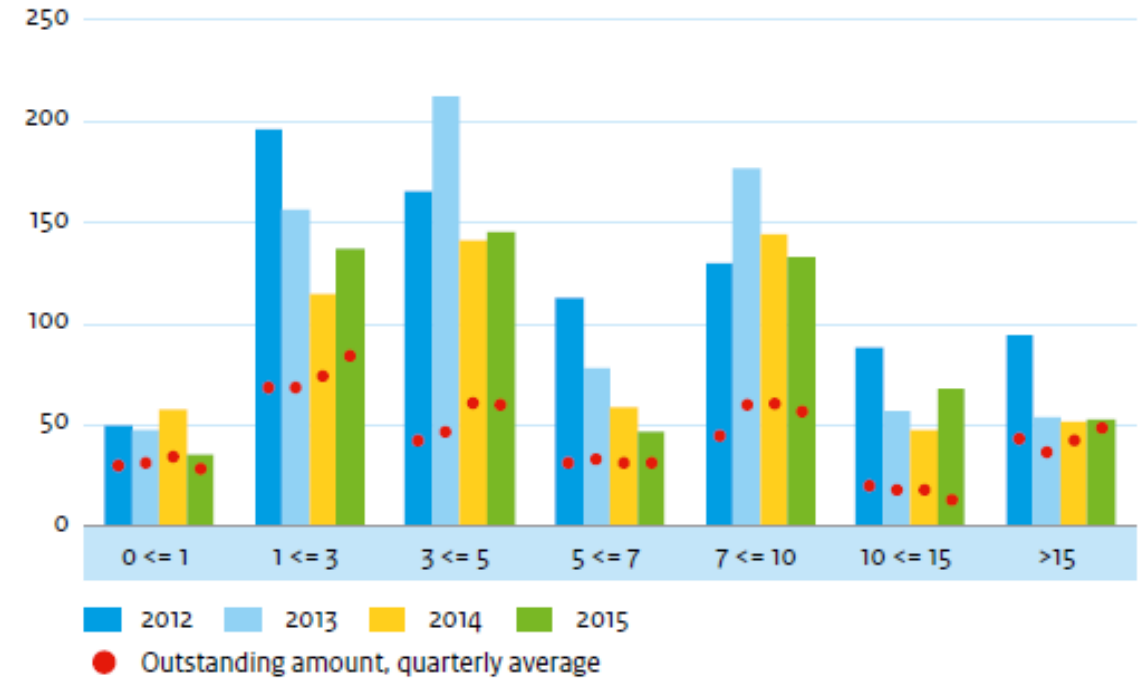
Euro area holdings of Dutch government debt by sector (sept 2014)



Source: Dutch Central Bank as published in Economische Statistische Berichten (http://www.economie.nl/artikel/statistiek-216)

Secondary market

PD reported DSL turnover, 2012-2015 (Q1-Q3), by remaining maturity (in € bn)



Source: DSTA SMTR

Funding plan 2016

Borrowing requirement 2016

Borrowing requirement	(€ bn)
Capital market redemptions 2016	28.1
Money market ultimo 2015	15.2
Cash collateral ultimo 2015	19.4
Cash deficit*	7.6
Total funding requirement 2016	**70.3**

***excludes possible further sales of ABN Amro and sale of ASR**
Source: www.dsta.nl, January 2016

Funding in 2016

Funding	(€ bn)
Capital market	25 – 30
Money market	20.9 – 25.9
Cash collateral ultimo 2016*	19.4
Total funding requirement 2016	**70.3**

* Assuming cash collateral remains constant and equal to volume ultimo 2015

Source: www.dsta.nl, January 2016

- Money market remains primary buffer
- New in 2016: target range capital market

Issuance in 2016

DSL	Indicative amount (€ bn)
New 10-year DSL	15
New 5-year DSL	7.5 – 10*
Reopening longer dated off-the-run DSLs	2.5 - 5
Total DSL funding	**25 - 30**

* Will be reopened again in 2017 to reach at least € 15 bn

Source: DSTA Outlook 2016 (published on 11 December 2015)

Ensuring sufficient liquidity in secondary markets

- Annual issuance of a new 10-year bond, and a shorter dated bond (3- or 5-years)
- Raising outstanding amounts of 3-, 5- and 10-year bonds to € 15 bn within 1 year of issuance
- Quotation obligation for Primary Dealers to ensure that tradable prices are available at all times
- Repo facility available to Primary Dealers (‘lender of last resort’)

QE and DSL

Capital key Netherlands for PSPP is 5.7%

ECB (DNB) buys approx. € 2 bn per month of DSLs

Average maturity of DSL holdings is approx. 6.8 years

DNB has a securities lending facility for PDs

DSTA has a repo facility for PDs (lender of last resort)

10-year DSL: why to buy

- Netherlands has reputation of consensus-based fiscal discipline
- Structural reforms in place; both the economy and the housing market are picking up
- DSL 2026 offers attractive yield versus Germany
- Highly rated issuer (Aaa/AAA/AAA)
- Continuous availability of secondary market prices
- Annual issuance of 10-year bonds; commitment to raise outstanding amount to € 15 bn within the year

Supplement I

Structural reforms

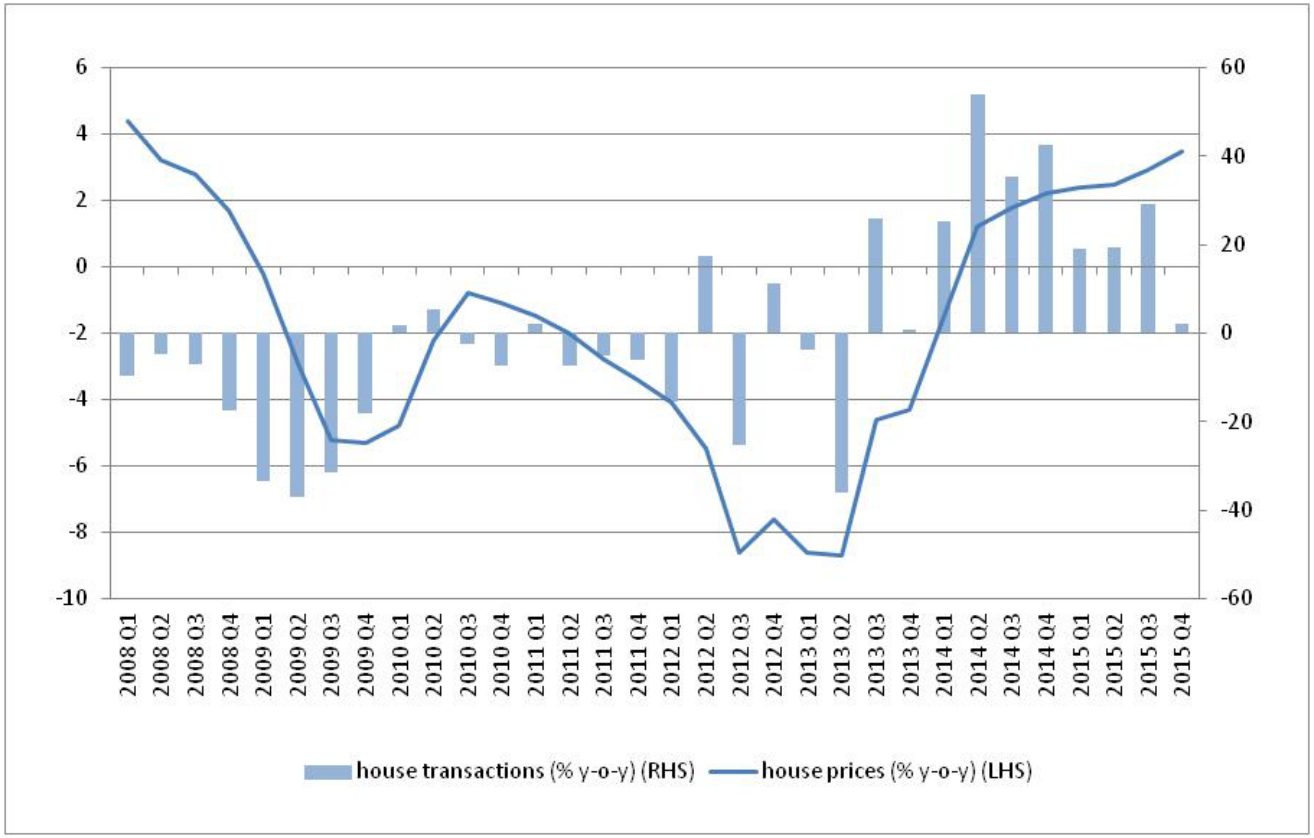
Housing market
- Reduced mortgage interest tax deductibility (new and existing loans)
- New mortgages should be redeemed in full during the lifetime of the loan
- Property transfer tax lowered from 6% to 2%, maximum LTVs and LTI's down
- Rents will be more market-based, and increased more for relatively higher incomes

Pensions / retirement
- Retirement age increased to 67+ from 2021 onwards
- The maximum pension accrual qualifying for tax relief curtailed

Health care
- More long-term care will be provided outside homes for the elderly, by local governments
- More limited health insurance coverage, higher contributions by the insured
- Increased competition in the health care sector

Labour market
- Dismissal procedures simplified, increase labour market flexibility
- Access to unemployment benefits more stringent, stimulating labour supply

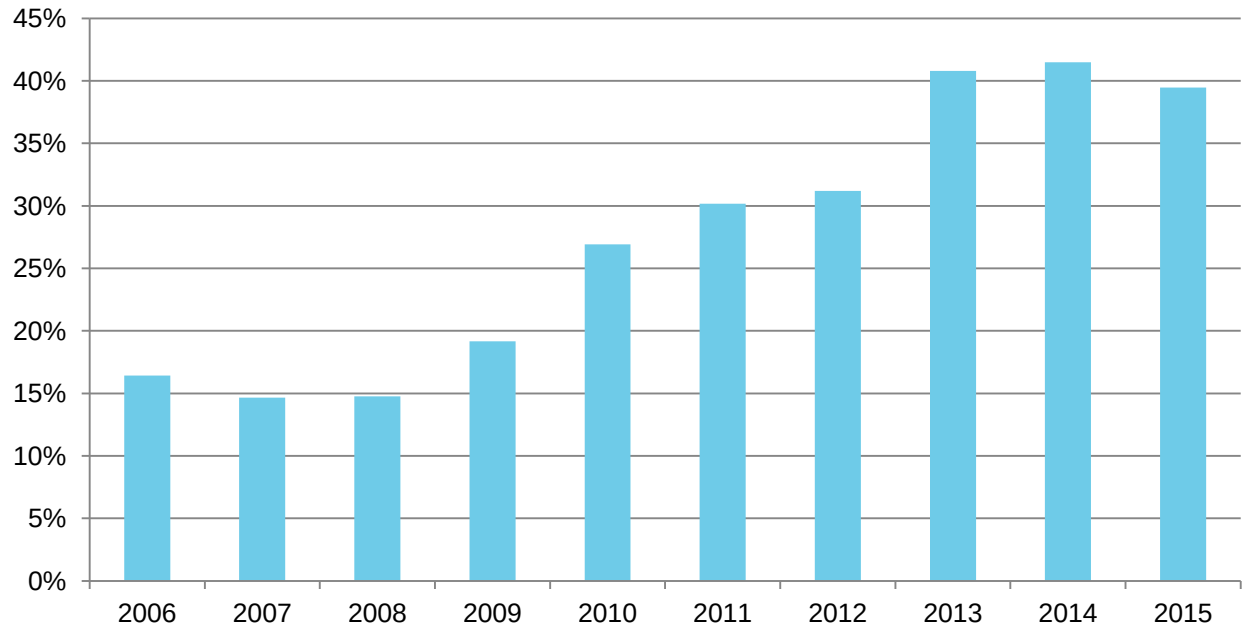
Housing market has recovered



Source: National Statistics Bureau, CBS

Decline in ‘underwater mortgages’

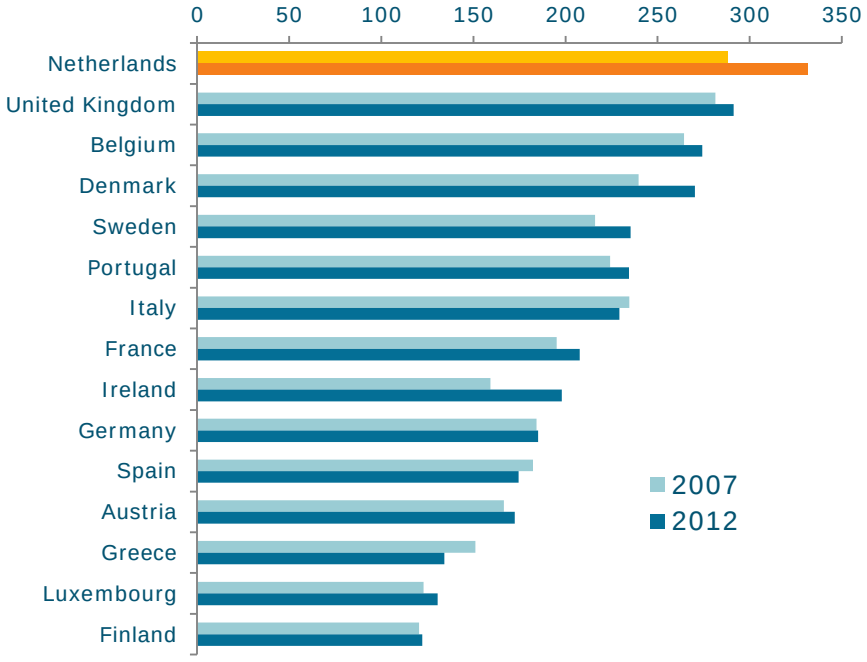
Underwater mortgages (% of total mortgages)



Source: National Statistics (2016)

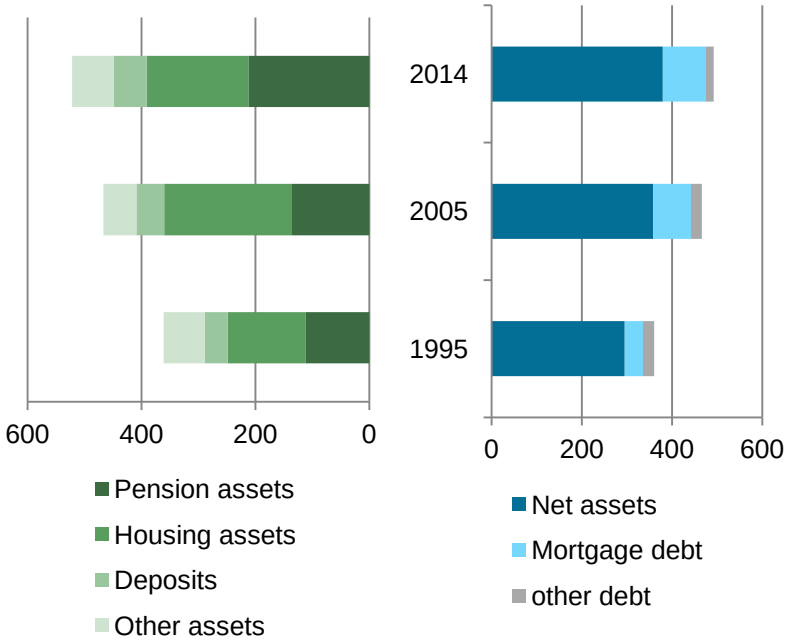
Households have strong asset position

Household financial assets (% GDP)



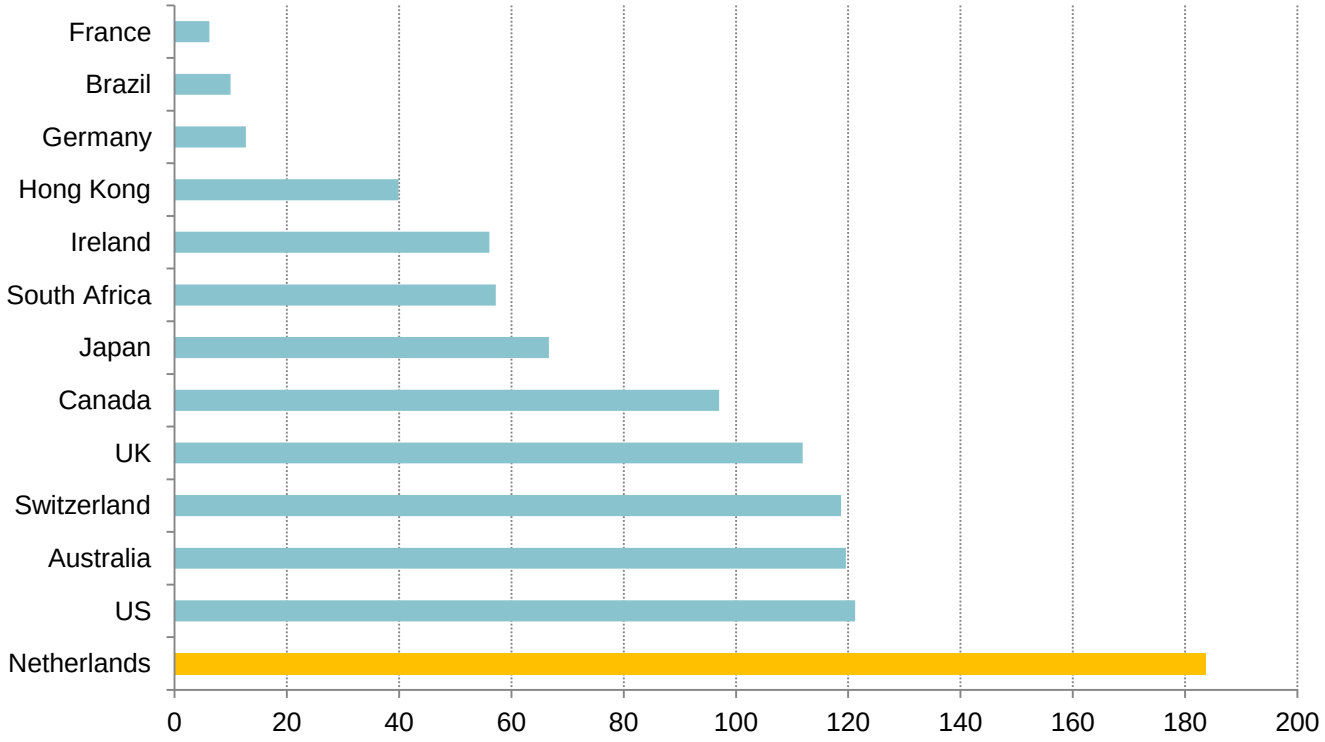
Source: Eurostat, 2013

Household assets and liabilities (% GDP)



Source: DNB in the government's Budget Memorandum

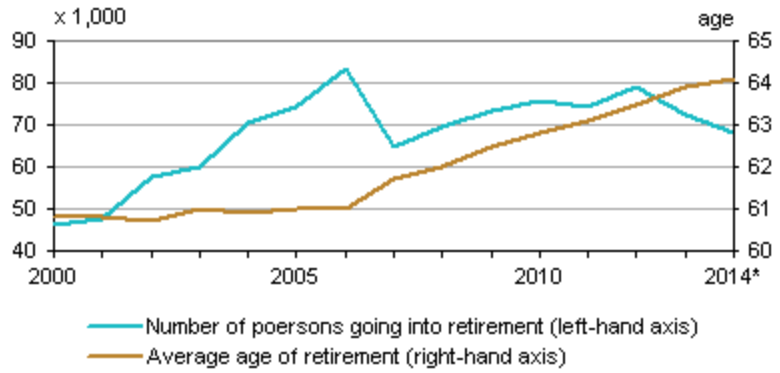
Pension assets internationally (% GDP in 2014)



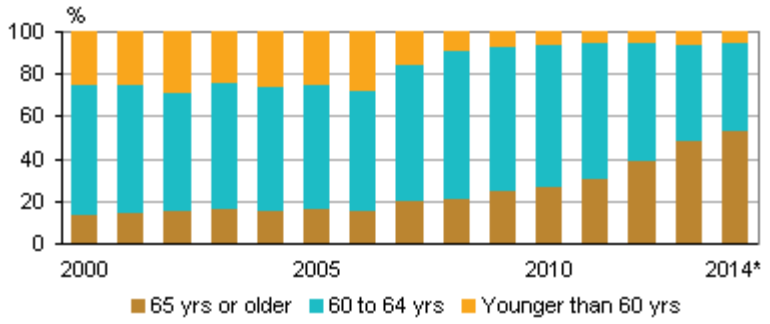
Source: Willis Towers Watson, Global Pension Asset Study, 2016

Pensions: reforms to achieve sustainability

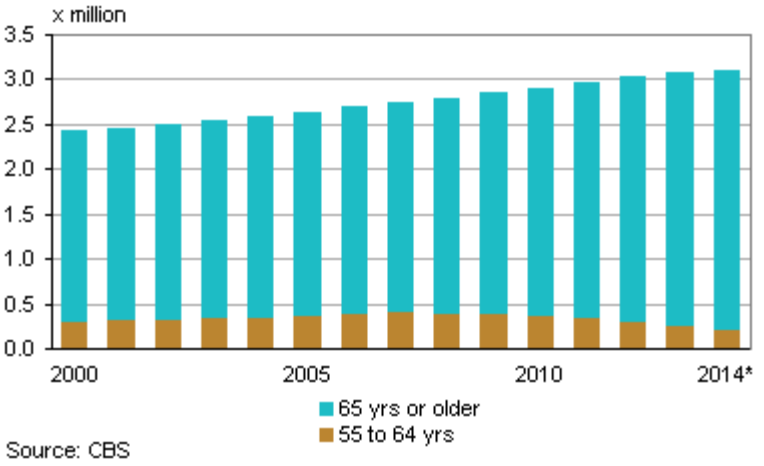
Number of retired employees and average age of retirement



Retirement age employees



Retired people by age

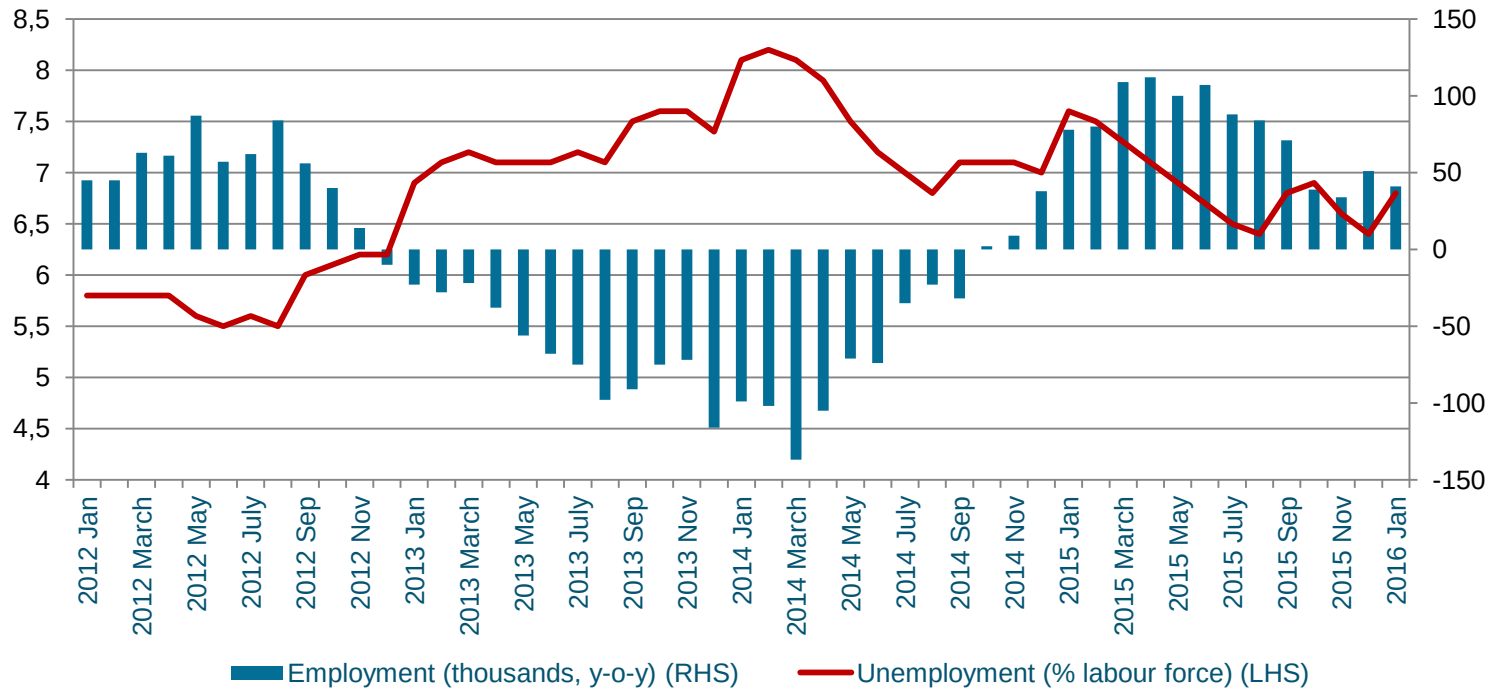


Source: CBS

- Increase in retirement age to 67 in 2021
- Tied to life expectancy after 2021

Source: National Statistics, 2014

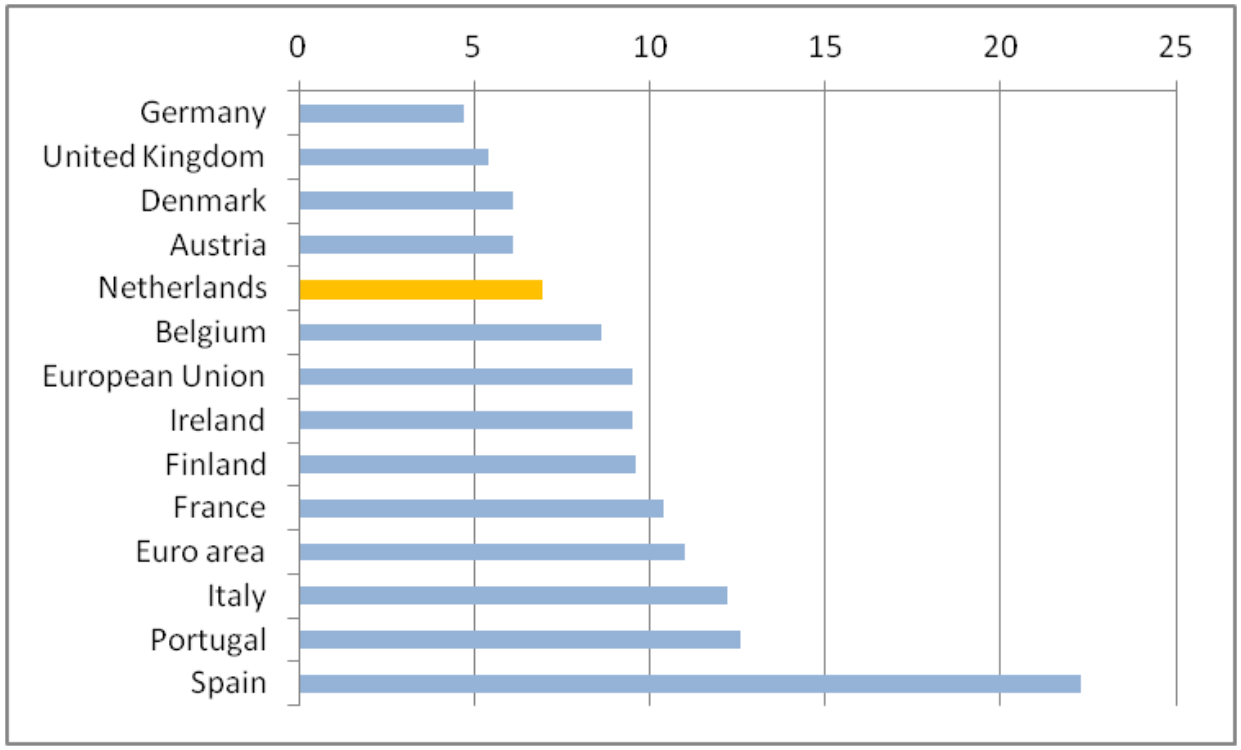
Labour market recovery



Source: National Statistics Bureau

Unemployment remains low in European context

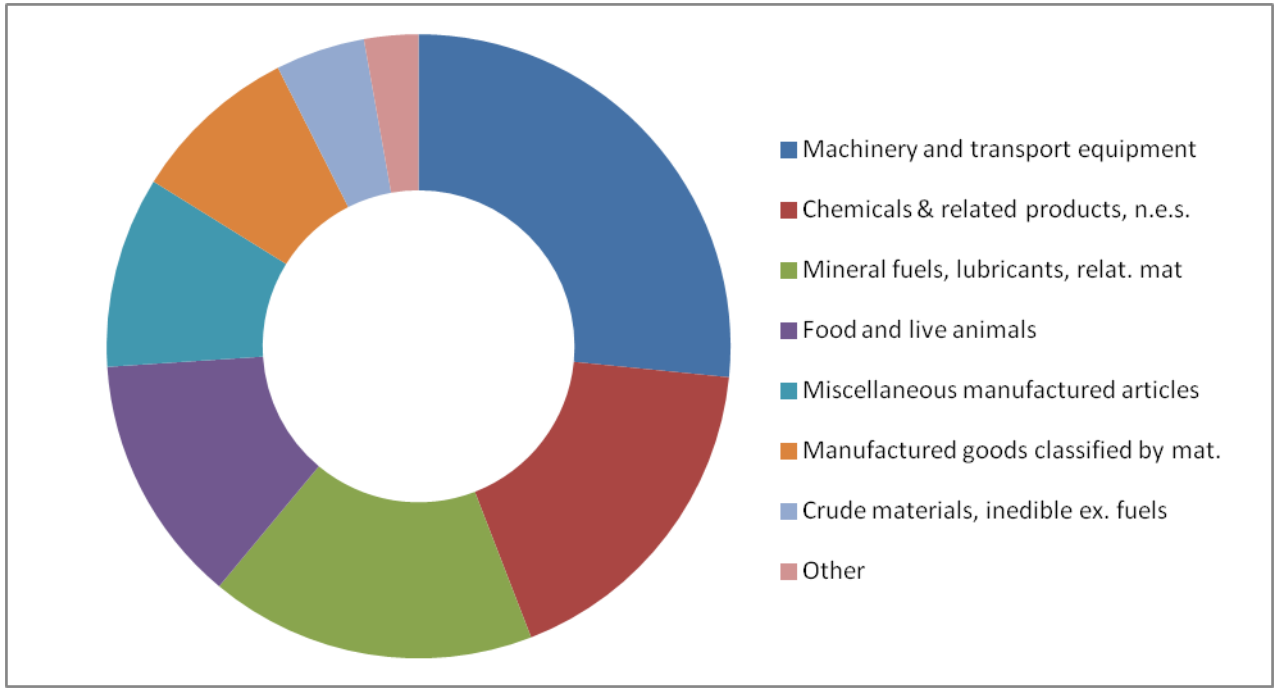
Unemployment rate (2015, % of labour force)



Source: Eurostat

Diversified Dutch exports

Exports by product category (% of total)



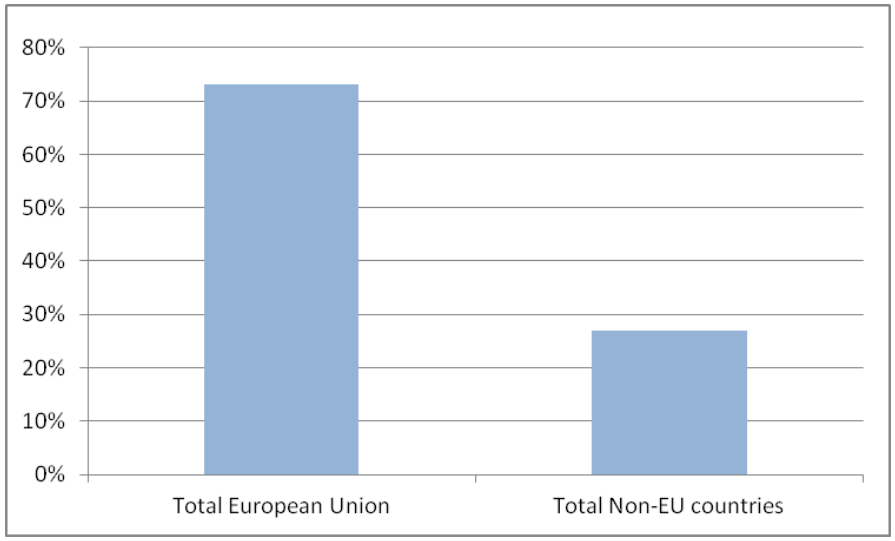
Source: National Statistics Bureau, CBS (2014 data)

Export performance by country destination

Rank	Country	Share
1	Germany	24,1%
2	Belgium	11,0%
3	United Kingdom	8,5%
4	France	8,2%
5	United States of America	4,4%
6	Italy	4,3%
7	Spain	2,8%
8	Poland	2,2%
9	China	1,8%
10	Sweden	1,8%
11	Czech Republic	1,5%
12	Russian Federation	1,5%
13	Switzerland	1,3%
14	Denmark	1,3%
15	Austria	1,2%

Source: National Statistics Bureau, CBS (2014 data)

Split of exports: EU and non-EU (% of total)



Financial sector interventions

1. Nationalizations: ABN Amro and ASR (2008, as part of nationalization of Fortis NL), SNS REAAL(2013)

   The financial institutions are or will be privatized:
   - REAAL (the former insurance part of SNS REAAL) was sold in early 2015
   - ABN Amro – IPO in November 2015; 23% was sold; remainder will be sold in coming years
   - ASR – IPO expected at the earliest in the first half 2016
   - SNS Bank (the former banking part of SNS REAAL) - decision about its future expected in 2016
   - Propertize (the former real estate part of SNS Bank) – a sale process is currently underway, which is expected to result in a sale in 2016

2. Capital support (2008) to ING (€ 10 bn) and AEGON (€ 3 bn) was repaid

3. Guarantee scheme for medium-term bank debt wound down at the end of 2014

4. Outstanding guarantees: € 2.6 bn for Propertize (former SNS REAAL)

5. Alt-A portfolio (US-RMBS) of ING was sold end 2013 / early 2014

Supplement II

The DDA explained

A short overview

- Rule-based auction – all investors receive equal treatment
- Primary auction with direct participation of end-investors
- A single uniform price ➔ winner's curse avoided
- Bids can be placed via Primary Dealer(s) of choice and orders can be split via several dealers
- DSTA is the sole book runner
  - Level playing field among all Primary Dealers
  - Confidential participation of investors
- PDs must sign DDA Allocation and Price Compliance Statement*

DDA rules are available on www.dsta.nl

* As indicated in the General Conditions for PDs – see www.dsta.nl/english/Subjects/Primary_Dealers

Bidding

- Bids are placed at increments of 0.5 bps to the reference bond or ‘at best’
- Maximum bid of € 300 million per spread;
- An investor may split orders among Primary Dealers up to the maximum allowed (€ 300 million per spread)
- There is **no pot** in the DDA: Primary Dealers are rewarded for overall DDA performance at the end of the year
- Bids ‘at best’ are at all times equal to bids at the tightest spread

DDA rules are available on www.dsta.nl

Investor classification

Real money clients	Other clients
Asset and Fund Managers	Hedge Funds
• Central Banks • Agencies • Supranationals	All accounts of banks, except: • Treasury/ ALM accounts of banks • Private banks
Insurance Companies	Other trading Desks
Pension Funds	
Private Banks	
Treasuries / ALM accounts of banks	

Focus on real money clients

- Allocation: Real Money Clients receive priority at the cut-off spread

Safeguarding instant liquidity

- DSTA reserves the right to raise the allocation to ‘Other Clients’ up to 35% of the total allocated amount

Mechanics of allocation: an example

Details

Transaction	
Spread	17 to 18 bp
Target size	€ 4 - 6 bn
Book size	€ 10.5 bn

Order book

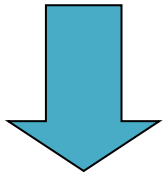
Spread	At best	17	17.5	18
Real Money	1500	1000	1500	1500
Other	1000	2000	1000	1000
Total	**2500**	**3000**	**2500**	**2500**
Cumulative		5500	8000	10500

Mechanics of allocation – scenario 1

Order book

Spread	At best	17	17.5	18
Real Money	1500	1000	1500	1500
Other	1000	2000	1000	1000
Total	**2500**	**3000**	**2500**	**2500**
Cumulative		5500	8000	10500

- Allocated amount: **€ 6000**
- Uniform cut off: **+17.5**



Allocation at cut-off:

Real Money **33 %**

Others **0 %**

Allocation

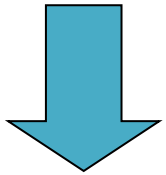
Spread	At best	17	17.5	18
Real Money	1500	1000	500	0
Other	1000	2000	0	0
Total	**2500**	**3000**	**500**	**0**
Cumulative		5500	6000	

Mechanics of allocation – scenario 2

Order book

Spread	At best	17	17.5	18
Real Money	1500	1000	1500	1500
Other	1000	2000	1000	1000
Total	**2500**	**3000**	**2500**	**2500**
Cumulative		5500	8000	10500

- Allocated amount: **€ 5000**
- Uniform cut off: **+17**



Allocation at cut-off:

Real Money **100%**

Others **83%**

Allocation

Spread	At best	17	17.5	18
Real Money	1500	1000	0	0
Other	833	1667	0	0
Total	**2333**	**2667**	**0**	**0**
Cumulative		5000		

Supplement III

Funding instruments

Funding instruments: the capital market

Dutch State Loans (T-bonds)

- Focus on issuance in EUR
- Maturities: focus on 3- and 10-years, but also 5-years
- Commitment up to the long end of the curve (up to 30 year segment)
- Auctions on fixed dates: 2nd and (if needed) 4th Tuesday of the month
- Annual issuance plan plus quarterly calendars
- Dutch Direct Auctions for new longer-dated DSLs
- Benchmark size at least € 15 bn per DSL (€ 10 bn for 30-year DSLs)
- Buy-backs for cash management purposes (up to 24m remaining maturity)
- Possibility of issuance of USD Dutch State Bonds

Funding instruments: the money market

Dutch Treasury Certificates (T-bills)

- Maturities: 3 to 6 (or) 12 months
- Auctions: twice a month (on Monday)

Commercial Paper (CP)

- Maturities up to 1 year (focus on up to 3 months)
- In EUR, USD, GBP, CHF and NOK
- No auctions, initiative with counterparty

Foreign currencies fully hedged

Deposits (“Cash”)

- Borrowing short term; large amounts if necessary
- Lending: unsecured and secured (reverse repo: buy-sell-back)
- In EUR and borrowing also in USD

Funding strategy

- Transparency: calendars, press releases, website
- Continuity / predictability: no surprises, consistency in policies and operations, live up to commitments
- Tradability / liquidity:
  - Quotation obligations for Primary Dealers
  - Repo facility for Primary Dealers
  - Minimum outstanding volumes of bonds

Primary Dealer group for 2016

ABN Amro Bank	Barclays Capital*	Citigroup*
Commerzbank*	Deutsche Bank	Goldman Sachs
HSBC France	ING Bank*	Jefferies
Natixis	Nomura	Rabobank*
Royal Bank of Scotland*	Santander GB&M	Société Générale

* Also Commercial Paper Dealer

5 Single Market Specialists

BBVA	Crédit Agricole	DZ Bank
Nordea	UBS*	

Supplement IV

Risk framework 2016-2019

Interest rate risk framework 2008 - 2015

- 7-year benchmark as the core of our risk framework
- Interest rate risk management and funding policy fully separated
- Deviations from the benchmark since 2012 led to an increased average maturity
- Recommendations evaluation 2015:
  - increase maturity
  - introduce clear risk indicators
  - and reduce dependency on swaps

Average maturity debt portfolio 2008-2019

Consequences

- Introduction of maximum refixing amount
- Funding strategy remains unchanged
- Swaps become a fine tuning instrument
- Issuance more important in risk management
- Option to revise strategy

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